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# Stantec Inc.

## 2005 Annual Report



# $S^3$ = Stantec's Sustainable Solutions

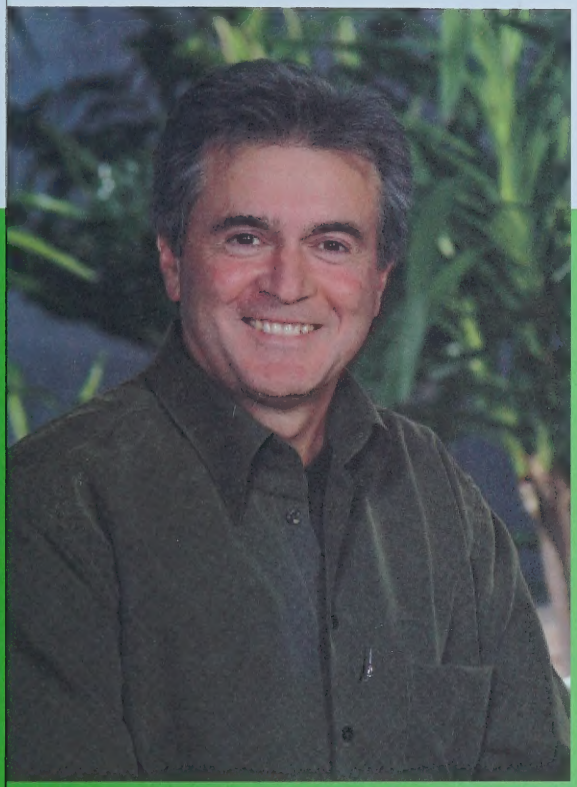
Stantec, founded in 1954, provides professional design and consulting services in planning, engineering, architecture, interior design, landscape architecture, surveying, and project management. Continually striving to balance economic, environmental, and social responsibilities, we are recognized as a world-class leader and innovator in the delivery of sustainable solutions. With a roster of comprehensive services, our Company supports clients at every stage, from initial concept and financial feasibility to project completion and beyond. Our multidisciplinary practice areas serve public and private sector clients in a diverse range of markets.

In simple terms, the world of Stantec is the water we drink, the roadways we travel, the buildings we visit, the industries in which we work, and the neighborhoods we call home.

Stantec's services are offered through more than 5,500 employees operating out of over 60 locations in North America and the Caribbean. Stantec trades on the Toronto Stock Exchange under the symbol STN and on the New York Stock Exchange under the symbol SXC.
Stantec = Sustainable Solutions

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Tony Franceschini, P.Eng.
*President & CEO*

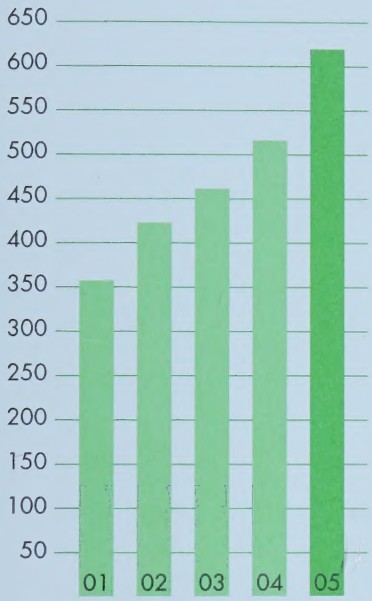
# MESSAGE TO SHAREHOLDERS

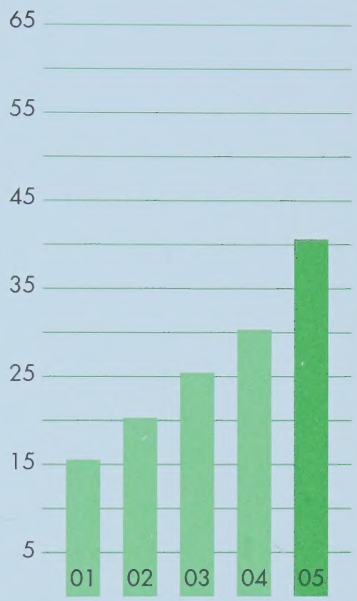
2005 was a year of transformation for our Company—a year full of activities and events that took us to the next phase of our evolution. In 2005 we completed the largest acquisition in our history—The Keith Companies—integrating over 800 employees and expanding to 12 locations principally in the western United States. In 2005 we added a listing on the New York Stock Exchange to complement our Toronto Stock Exchange listing, executing our first US trade under the symbol SXC. In 2005 we continued to streamline our operations and strengthen our practice areas, particularly in buildings architecture and engineering services in Canada and in urban development services in the US West. And in 2005 we continued to enhance the capabilities of our enterprise management system, making it more robust in order to provide better and more timely business information and intelligence. Most importantly, we continued to execute the fundamentals of our business model by delivering quality projects to our clients. Together, these activities and events positioned our Company for future growth and established Stantec as a truly North American firm.

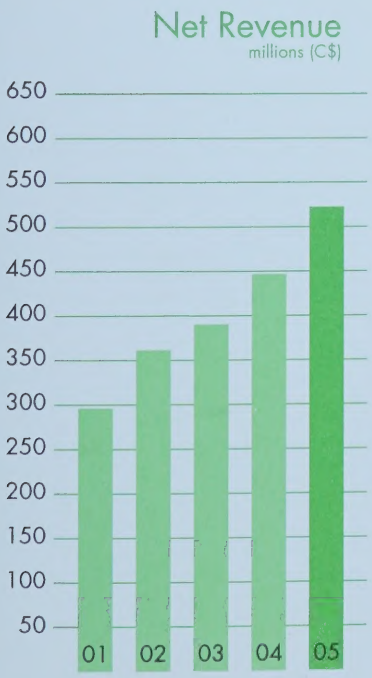
We moved to this next stage of development while maintaining our long-standing record of strong performance in 2005 and thereby achieving our 52nd year of uninterrupted profitability. Our gross revenue increased to $618.0 million, up 18.6% from 2004; our net revenue increased to $524.6 million, up 16.8%; our net income increased to $40.6 million, up 34.6%; and our basic earnings per share increased to $2.04, up 25.2%. This consistent performance contributed to a 50% increase in share price during the year.

# Financial Summary

| In thousands of Canadian dollars, except per share amounts and ratios | 2005 | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|
| Gross revenue | $ 618,020 | $ 520,879 | $ 459,942 | $ 428,456 | $ 356,942 |
| Net revenue | 524,552 | 449,151 | 391,396 | 365,148 | 298,772 |
| Income before taxes | 62,500 | 44,660 | 39,628 | 33,095 | 27,306 |
| Net income | 40,622 | 30,190 | 25,070 | 20,192 | 15,370 |
| Current assets | 280,371 | 208,755 | 177,629 | 163,261 | 121,267 |
| Current liabilities | 157,814 | 126,755 | 127,047 | 99,295 | 88,487 |
| Property and equipment | 58,519 | 48,262 | 67,670 | 51,747 | 41,371 |
| Long-term debt | 81,886 | 21,155 | 31,159 | 41,730 | 15,652 |
| Shareholders' equity | 348,053 | 189,056 | 160,528 | 151,426 | 107,450 |
| Gross revenue backlog | 588,000 | 380,000 | 310,380 | 299,801 | 259,185 |
| Net cash (bank indebtedness) position | 28,143 | 37,890 | (9,808) | 29,202 | (7,145) |
| Earnings per share – basic | 2.04 | 1.63 | 1.37 | 1.12 | 0.92 |
| Earning per share – diluted | 1.98 | 1.59 | 1.31 | 1.07 | 0.88 |
| Book value per share | 15.60 | 10.02 | 8.76 | 8.28 | 6.38 |
| Current ratio | 1.78 | 1.65 | 1.40 | 1.64 | 1.37 |
| Debt to equity ratio | 0.17 | (0.02) | 0.34 | 0.22 | 0.30 |
| Price earnings ratio | 19.49 | 16.25 | 16.13 | 14.91 | 13.99 |
| Weighted average number of shares outstanding | 19,920,117 | 18,499,598 | 18,329,960 | 17,987,358 | 16,742,730 |
| Shares outstanding | 22,313,131 | 18,871,085 | 18,327,284 | 18,282,720 | 16,846,340 |
| Shares traded | 8,400,695 | 5,736,000 | 5,163,000 | 4,553,100 | 8,907,200 |
| High | 40.39 | 29.39 | 23.48 | 20.50 | 14.25 |
| Low | 24.50 | 20.35 | 14.50 | 12.88 | 7.25 |
| Close | 39.75 | 26.48 | 22.10 | 16.70 | 12.88 |







# 2005 HIGHLIGHTS

- Increased gross revenue 18.6% to $618.0 million from $520.9 million in 2004, with net revenue increasing 16.8% to $524.6 million, net income increasing 34.6% to $40.6 million, and basic earnings per share increasing 25.2% to $2.04
- Achieved key growth objectives—the creation of a new region in southern California, providing a platform for growth in the US West; the expansion of our Architecture & Interior Design group, further positioning it as the largest and most geographically diverse architecture and interior design practice in Canada; and the enhancement of our capabilities in sustainable buildings systems design, giving us one of the largest integrated sustainable design teams in North America
- Increased our total staff number to approximately 5,500 through internal hiring as well as the integration of three firms, including our largest acquisition to date
- Added a listing on the New York Stock Exchange to complement our Toronto Stock Exchange listing, executing our first trade in the United States under the symbol SXC

At Stantec we recognize the importance of sustainability in everything we do across our Company. Accordingly, in this annual report we have chosen to highlight some of the ways in which we provide sustainable solutions. For our Company, sustainability means having a business strategy that focuses on long-term growth while mitigating risk for our shareholders. It means offering services to our clients that contribute to ensuring a viable, healthy future for our world. And it means serving as a caring, stable force behind worthwhile endeavors throughout our communities.

Our approach to maintaining continued growth and profitability while mitigating risk is our three-dimensional business model. Focused on the infrastructure and facilities professional services sector, the model is based on diversifying our operations across different geographic regions, specializing in distinct but complementary practice areas, and providing professional services in all phases of the infrastructure and facilities project life cycle. Growth is achieved by strengthening or adding to our geographic locations, practice areas, or services in different life cycle phases. In 2005 we strengthened our Company through organic growth as well as the acquisition and integration of three firms. The addition of CPV Group Architects & Engineers in August expanded our Architecture & Interior Design group, further positioning it as the largest and most geographically diverse architecture and interior design practice in Canada. This acquisition was followed in September by our merger with The Keith Companies, which, along with being our largest addition to date, strengthened our Urban Land, Transportation, and Environment areas; created a new region in southern California; and established a new presence in Michigan. And the integration of Keen Engineering in October enhanced our capabilities in "green" building systems design, giving us one of North America's largest integrated sustainable design teams. In sum, these acquisitions combined with internal growth added approximately 1,160 employees to our operations, which increased our total staff number to about 5,500 at year-end.

Stantec's current vision—which we established in 1998—is to become a top 10 global design firm by the year 2008. Being a top 10 firm means working on the best projects for the best clients and attracting and retaining the best employees. To achieve this objective, we will continue to pursue excellence in design and project delivery and to follow an orderly growth plan. Our strategy is to increase our geographic reach in North America and selected international markets, where we see the potential to grow new regions and develop new markets for our services.

As we grow and evolve, we are confident that we can continue to provide sustainable solutions for our shareholders because our financial condition remains healthy and liquid and because we have a strong balance sheet with a sustainable level of debt. In 2005 we replaced our existing credit facility with a three-year revolving facility that provides a $160 million line of credit for our Company. This financial strength gives us the flexibility to continue to pursue appropriate investments in our future. What is more, we are committed to maintaining a strong corporate governance structure with clearly defined roles and responsibilities for our board of directors and management. Our board of directors is dedicated to the ideals of good governance, transparent accounting, and the delivery of long-term value to our shareholders.

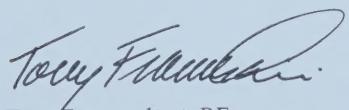
As much as we are committed to being a sustainable enterprise for our shareholders, we are committed to providing our clients with high-quality services that have a positive impact on our

world. We are providing sustainable solutions for both public and private sector clients in several of our specialist practice areas. For example, in 2005, as part of a design team, we helped Frito-Lay develop a state-of-the-art, environmentally friendly design for its new distribution center in Rochester, New York. The new facility—one of only two buildings in New York State that have been awarded Leadership in Energy and Environmental Design (LEED®) Gold certifications—is a model of resource conservation, showcasing the use of renewable energy, alternate lighting, and other green innovations. In Vancouver, British Columbia, we provided integrated design services for the development of a water treatment plant that was a much-needed solution for cleaning up acid mine drainage resulting from the former operations of the Britannia copper mine, the largest copper mine in the British Empire in the 1930s. In addition to discharging clean water into Howe Sound, the water treatment plant employs a microhydroturbine power generation system to produce green power from the mine water for its operations. Our skills were also used in the planning and implementation of initiatives designed to protect and enhance the natural features of Lake Margaret Estates, a 500-unit residential community created within a sanctuary for wildlife and native flora in St. Thomas, Ontario. And we provided a range of services for a series of environmental improvement program projects—in particular, projects related to water and air quality—aimed at preserving, restoring, and enhancing the natural and human environment of the Lake Tahoe Basin in El Dorado County, California.

Our commitment to sustainability is also reflected through the work we do in support of communities across North America and elsewhere. In 2005 we were proud to present the first scholarships in the Stantec Scholarship Program in partnership with major universities throughout Canada and the United States. And looking ahead to 2006, we will be donating professional engineering services to assist the United Nations Development Programme in rebuilding infrastructure in the Indonesian province of Aceh in response to the devastation caused by the 2004 tsunami.

In closing, I would like to take this opportunity to pay tribute to Neilson A. "Dutch" Bertholf, Jr., an enthusiastic and knowledgeable board member who retired from our board of directors September 1, 2005, following seven years of dedicated service. I am grateful for the wise counsel and business experience he contributed to the success of our Company. At the same time, I look forward to working with Aram Keith, former chairman and chief executive officer of The Keith Companies, who joined our board November 3. His background makes him well suited to guiding our Company toward its goals.

Finally, I wish to extend my sincere appreciation to our employees for their contributions to Stantec's transformation in 2005. Without their passion, commitment, and drive for excellence, we could not have moved to the next phase of our evolution. And to our board of directors, clients, and shareholders, thank you as always for your confidence and support.



Tony Franceschini, P.Eng.
*President & CEO*

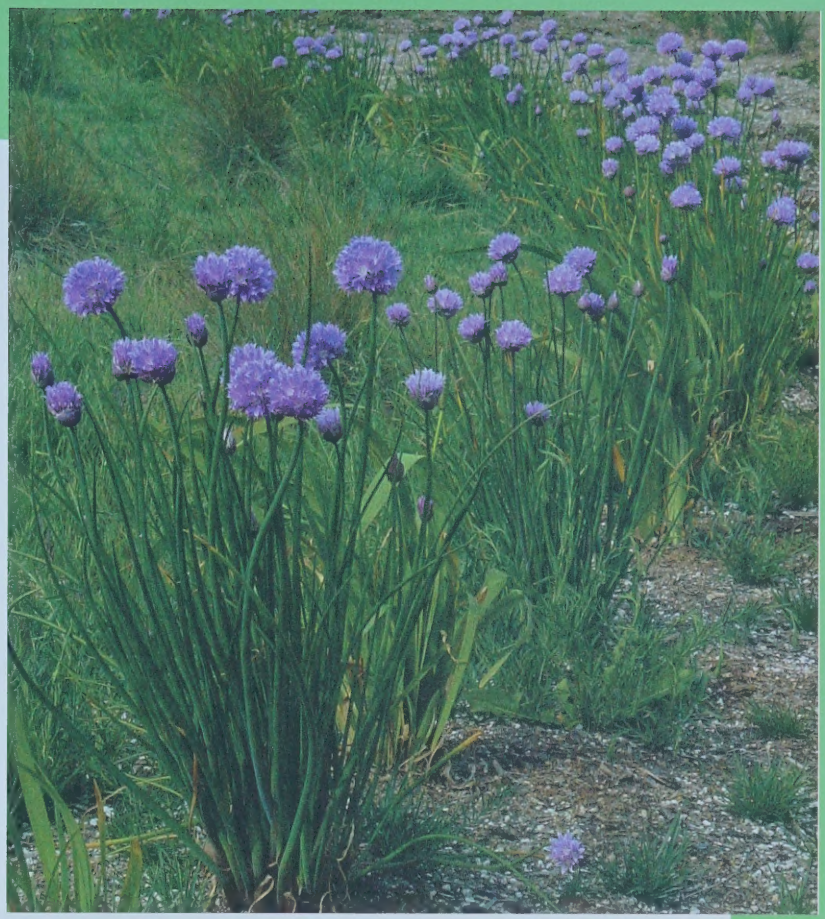
# AT STANTEC WE PROVIDE SUSTAINABLE SOLUTIONS FOR OUR SHAREHOLDERS.

We offer our shareholders a proven track record and the ability to grow while remaining profitable. In fact, since our beginning in 1954, we have achieved 52 consecutive years of uninterrupted profitability. And since our initial public offering on the Toronto Stock Exchange in 1994, our gross revenue, net income, and basic earnings per share have grown at a remarkable compound average annual rate of 19.3%, 21.3%, and 16.8%, respectively. This steady performance has contributed to a 723% increase in the price of our shares during this 11-year period.



**Stateline Wind Project, Umatilla County, Oregon**
Our staff are providing services for the alternate production of power, including the development of wind farms in locations across North America.

"Our solution for achieving continued growth and profitability is our three-dimensional, sustainable business model, which enables us to manage risk while continuing to increase our revenue and earnings."



**Green Roof Project, Stantec Office, Edmonton, Alberta**
The green roof we created atop our Atrium Tower in Edmonton helps reduce stormwater runoff, decrease urban air temperatures, remove air pollutants, and decrease our use of fossil fuels (through increased thermal insulation) while providing greater sound insulation and potential habitat for insects and birds.

Such performance gives us the financial strength to increase our revenue as well as our workforce by hiring new staff and acquiring companies that offer services in our service matrix. Since 1994 we have integrated over 40 firms and approximately 4,000 employees into our Company from Canada, the United States, and the Caribbean.

And our capacity to endure is helping us achieve the goal we established in 1998 to become a top 10 global design firm by 2008. Being ranked for the quality of our work among the top 10 peers in our industry anywhere in the world will strengthen our ability to serve our clients, give our employees increased opportunities to work with the best clients on the best projects, and enhance our value to shareholders. Our 10-year plan for realizing this objective relies on growing our business between 15 and 20% annually. At the close of 2005, we are a $600 million revenue company with more than 5,500 employees operating out of over 60 offices.






**Light Rail Transit, Edmonton, Alberta**
Our Transportation group designs public transportation systems, including light rail transit systems, that provide a safe, convenient way for people to travel to and from work, school, and recreational activities.

**OEM Remanufacturing Facility, Edmonton, Alberta**
We provided integrated services—architecture, buildings engineering, and industrial process design—for the development of a new remanufacturing facility in Edmonton. Our design incorporated "lean" engineering methodology, resulting in greater efficiency and lower operating costs for the remanufacturing plant.

Our solution for achieving continued growth and profitability is our three-dimensional, sustainable business model, which enables us to manage risk while continuing to increase our revenue and earnings. Focused exclusively on the infrastructure and facilities professional services sector, the model is based on providing services in diverse geographic regions, distinct but complementary practice areas, and all phases of the infrastructure project life cycle, thus ensuring that we are not dependent upon any single geographic region, practice area, or life cycle phase for our business. We currently operate in three broad geographic regions in North America—Canada, the US East, and the US West—made up of 14 smaller subregions. In total, we have offices in five provinces and 16 states as well as Puerto Rico. We also serve selected international markets in other parts of the Caribbean and undertake projects with clients in

designated areas around the world. We offer services in 13 distinct specialist practice areas grouped into five broad categories—Buildings, Environment, Industrial & Project Management, Transportation, and Urban Land. And we provide specialized services in the five project life cycle phases—planning, design, construction, maintenance, and decommissioning. By cross selling our expertise between our regions and practice areas, we are able to offer clients in both the public and private sectors a full roster of services delivered through one source. Indeed, our operating philosophy is "One Team. Infinite Solutions."

The sustainability of our model is strengthened each time we augment our geographic reach, add expertise to our practice areas, or increase our work in one of the five life cycle phases. In 2005 we achieved several key objectives in support of our growth plan by expanding our architecture and interior design practice, enhancing our capabilities in the transportation and environment sectors, and creating a new region in southern California. Our strategy going forward is to continue to sustain our Company by growing our operations in many of our current regions while also expanding outside these regions through internal hiring or the integration of newly acquired firms. Because of the solid foundation we have built to date, we are now able to acquire larger firms in the infrastructure and facilities sector. In addition, we plan to continue to bolster our service offerings and expertise in our current practice areas both within and outside our existing regions.

**Harvest Park, Fort Collins, Colorado**
Our Urban Land group provided civil engineering and surveying services for this 500-unit, neotraditional residential subdivision in Colorado. Because of the flat topography of the area, extensive storm drainage modeling was required to protect the new community from flooding.

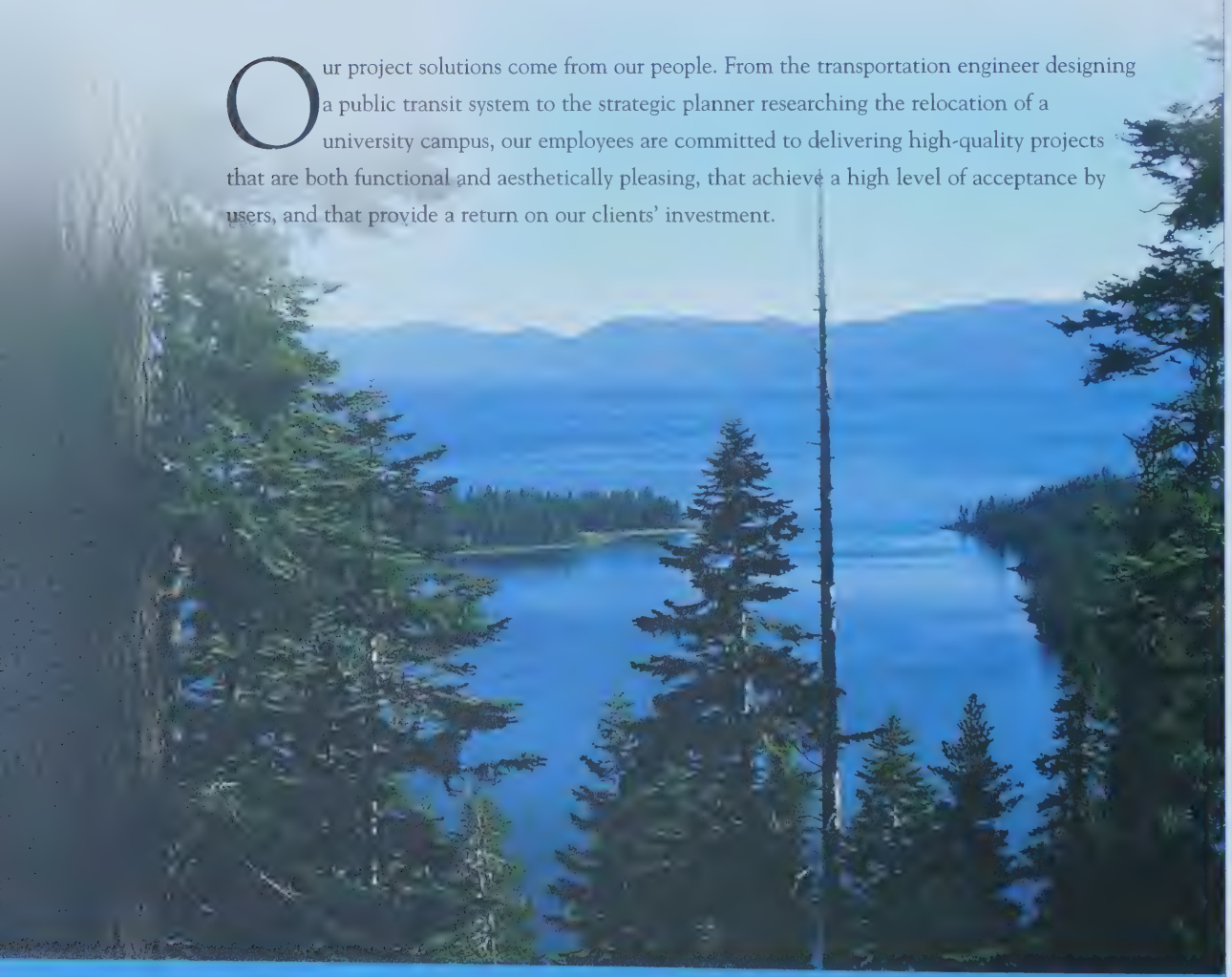


**North Peace Airport, Fort St. John, British Columbia**
The new terminal building our Architecture group designed for the North Peace Airport not only serves as a gateway to communities and industries in northern British Columbia but also is responsive to local weather conditions, including high snow volumes, low winter light, and summer dust.



# AT STANTEC WE PROVIDE SUSTAINABLE SOLUTIONS FOR OUR CLIENTS.

Our project solutions come from our people. From the transportation engineer designing a public transit system to the strategic planner researching the relocation of a university campus, our employees are committed to delivering high-quality projects that are both functional and aesthetically pleasing, that achieve a high level of acceptance by users, and that provide a return on our clients' investment.



**Lake Tahoe Basin Environmental Improvement Program Projects, El Dorado County, California**
We are providing a range of services, including analyses of existing storm drainage systems, for improving water and air quality in the Lake Tahoe Basin.

"To underscore our commitment to our clients, we are championing sustainability in our projects Company wide."



**Kamloops Centre for Water Quality, Kamloops, British Columbia**
We designed the Kamloops Centre for Water Quality to perform 66% more efficiently than a comparable facility referenced by the Model National Energy Code of Canada for Buildings.

Our people are also the growing force behind our commitment to providing clients with infrastructure and facilities solutions that contribute to a sustainable future. Currently, over 200 of our employees are accredited with the Leadership in Energy and Environmental Design (LEED) Green Building Rating System®, a voluntary, consensus-based national standard for developing high-performance, sustainable buildings. And staff across the Company are playing a leadership and advocacy role in promoting sustainable development throughout North America as public speakers, authors of papers, members of community groups, and leaders in the U.S. and Canadian Green Building Councils.

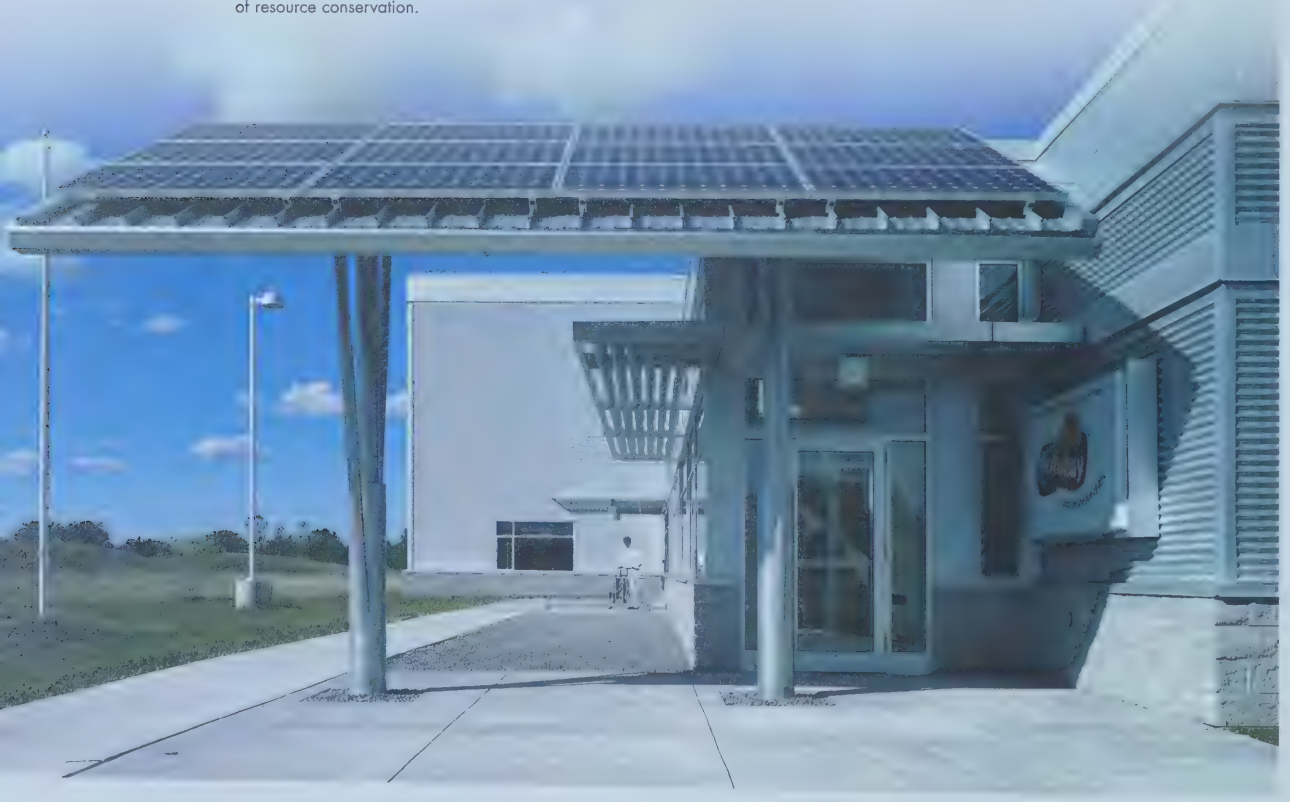
To underscore our commitment to our clients, we have created roles for championing sustainability in our projects Company wide, including that of designated sector leader for our

sustainable design work. We also have a Concepts group that helps teams throughout the Company design greener facilities. Within its key service areas, the group keeps our teams up-to-date with the latest sustainable ideas, helps them measure the "greenness" of their buildings by coordinating the LEED® process, provides modeling to assist them in predicting a building's performance, and conducts sustainability and energy audits on existing buildings.

What is more, our people are helping us foster an internal culture of sustainability within our operations. A prime example is our Seattle, Washington, office, which has implemented comprehensive recycling programs, policies for buying only recycled and/or recyclable supplies and furniture, and a volunteer green commuter program, among other environmentally responsible initiatives. Many of these programs have been the work of the office's in-house Green Team.

Cost effective and responsive to our clients' needs, the projects featured in the following pages are some examples of the sustainable solutions our people provide.

**Frito-Lay Distribution Center, Rochester, New York**
As part of a design team, we contributed our architecture and engineering expertise to the development of the new LEED® Gold-certified Frito-Lay distribution center—a model of resource conservation.



**Vegreville Library, Vegreville, Alberta**
Our staff completed the architectural and interior design of the new Vegreville library, which is registered with the Commerical Building Incentive Program, an initiative intended to encourage investments in energy-efficient building design and construction. To qualify for the incentive, a building must be at least 25% more energy efficient than it would be if it were constructed to meet the requirements of the Model National Energy Code of Canada for Buildings.





**Buffalo Public School 31, Buffalo, New York**
We provided architectural design services for a major renovation of a historic Buffalo school, originally built in 1925, as part of a green design program initiated by the U.S. Green Building Council. The renovation—which is registered to achieve LEED® Silver certification—will result in energy conservation, a healthier indoor environment, and more efficient use of resources.

## Buildings solutions

Our people are providing solutions for the design of high-performance, energy-efficient facilities in all building sectors—educational, commercial, institutional, and manufacturing. In Rochester, New York, as part of a design team, we contributed our architecture and engineering expertise to the design of the new Frito-Lay food distribution warehouse and office facility, one of only two LEED® Gold-certified buildings in New York State. The 40,900-square-foot (38,000-square-metre) food distribution center will serve as a model of resource conservation, featuring strategies for the use of renewable energy, alternate lighting, and other green innovations. In Kamloops, British Columbia, our Architecture & Interior



**Clover Bar Landfill Gas Power Project, Edmonton, Alberta**
The services our Energy & Resources team provided for this project in Edmonton ultimately enabled our client to convert landfill gas into electricity for export to the city's power grid.



**Nesting Raptor Study, Rocklin, California**
Our Environmental Management group completed environmental field analyses and conducted a nesting raptor survey to ensure wildlife protection at the Blue Oaks Marketplace in Rocklin.

Design, Buildings Engineering, and Environmental Infrastructure groups teamed up to act as the lead consultant in designing the Kamloops Centre for Water Quality, the largest membrane water treatment plant in North America, with a capacity to provide up to 160 megalitres (42.3 million US gallons) of safe drinking water for approximately 85,000 people per day. Targeting to achieve LEED® Silver certification, our team designed the building to perform 66% more efficiently than a comparable facility referenced by the Model National Energy Code of Canada for Buildings. Our sustainable solutions for the project also included a wide range of water conservation measures (including the reuse of reject water for irrigating the plant site along with a 19-hectare [47-acre] city park), habitat restoration, and on-site stormwater management and treatment. In addition, in Vancouver, British Columbia, we completed the architectural and interior design of the Discovery Education Centre at the Vancouver Aquarium, which is now under construction. This new facility—targeted to achieve LEED® Gold certification—will function as an educational resource for school children and community groups not only in the marine sciences but also in sustainable design. Among other technologies, the center will showcase the use of captured rainwater for toilet flushing and irrigation and of an energy-efficient heat exchanger that taps into seawater from Burrard Inlet for heating and cooling. All together, the sustainable strategies incorporated into our design will help the center achieve a 50% reduction in energy performance compared to facilities designed for conventional construction. And in Edmonton, Alberta, we provided the mechanical engineering design for the development of the South Division Police Station, another LEED® Gold-certified project, which included energy conservation measures that will save the City of Edmonton approximately $31,000 in operating costs and avoid the production of 290 tonnes of carbon dioxide and associated toxins.

# Urban Land solutions

Our people are providing solutions for developing residential communities that work with the natural amenities of their environment. For example, our Planning & Landscape Architecture group played a significant role in the land planning of Lake Margaret Estates, a 500-unit residential community created within a conservation area in St. Thomas, Ontario. To preserve the area as a sanctuary for wildlife and native flora, the project included such large-scale initiatives as restructuring the lake shoreline, building nesting islands, and designing a naturalized stream corridor. We continue to monitor the community to ensure the long-term health of Lake Margaret. In Sherwood Park, Alberta, the landscape architecture and civil engineering services we contributed to the development of the Heritage Hills community helped to preserve an existing natural wetland and its vital ecological functions (for example, protecting and improving water quality and providing fish and wildlife habitats). Our landscape architecture services also included the design of recreational components, such as bike and walking trails winding around the natural area, to enable residents to learn about and enjoy the wetland. We also completed the engineering and landscape architectural design of a constructed wetland for the 20-hectare (49.5-acre) Edgemont community, a master-planned residential

**Heritage Hills Wetland, Sherwood Park, Alberta**
Our Urban Land group used its expertise in landscape architecture and civil engineering to preserve a wetland within a new residential development. Our landscape architecture services also included the design of recreational trails winding around the natural area.

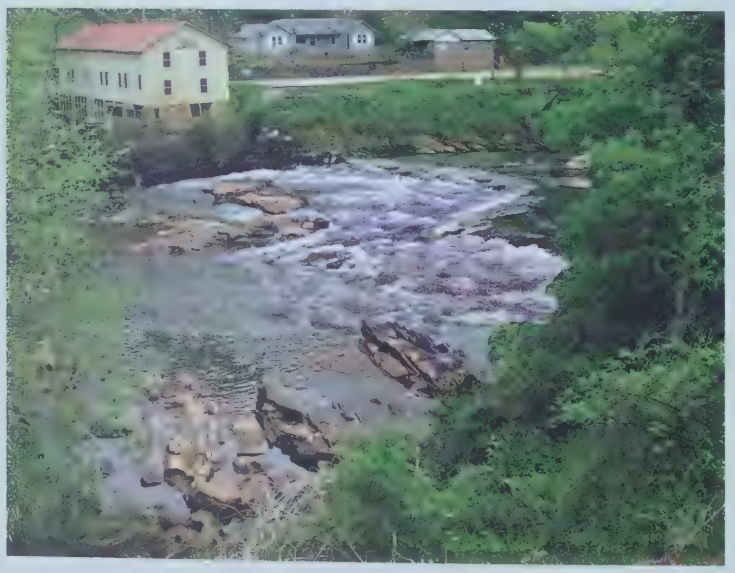


development in Calgary, Alberta, that we have been involved in creating since the 1970s. Through an extended storm detention pond, the 1.5-hectare (3.7-acre) constructed wetland provides a natural means of treating surface stormwater runoff from the community as well as wildlife habitat and sustained underground irrigation for a floodable forest in the area.

## Industrial solutions

Our people are providing solutions for the alternate and environmentally responsible production of energy. In Edmonton, Alberta, our Energy & Resources team designed and commissioned the electrical, instrumentation, and control apparatus that ultimately enabled a power production client to burn gas extracted from the Clover Bar Landfill northeast of the city to produce electricity for export to the city's power grid. Previously, because of a lack of available facilities, our client was obligated to flare the landfill gas following extraction, and its energy content was lost in the process. We also served as the project manager for this landfill gas power project—from budget development and conceptual design to the start of construction. Similarly, our staff were instrumental in the development of the Kingsbridge I wind farm located along the shores of Lake Huron near Goderich, Ontario, and of Phase 1 of the Melancthon wind project located near Shelburne, Ontario. Once operational in mid-2006, these wind power projects will generate 39.6 and 67.5 megawatts of clean electricity, respectively, and help the Province of Ontario meet its renewable energy targets. We were responsible for managing the environmental

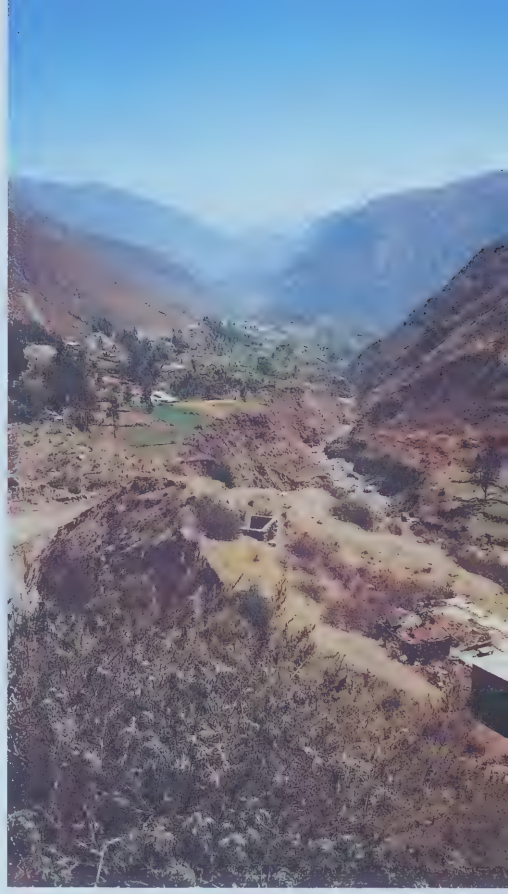




**Tuckasegee River Restoration, Dillsboro, North Carolina**
Our Environmental Management team developed a conceptual plan for removing the Dillsboro Dam on the Tuckasegee River and restoring the river to its natural condition. Pictured above is the dam prior to removal. Pictured to the right is the river following restoration.



**Train Derailment Wetland Restoration, Parry Sound, Ontario**
We helped restore a piece of wetland destroyed in the cleanup of a train derailment that now provides habitat for numerous species of native plants and aquatic and terrestrial animals.



**Sustainable Hydrocarbon Industry, Peru**
The strategic plan we prepared for the development of a sustainable hydrocarbon industry in Peru included measures for protecting the environmental integrity of this small mountain community while providing social and economic benefits.

assessment processes for both projects, including extensive natural environment surveys, public and agency consultation, and work required to satisfy federal and provincial regulatory requirements. In addition, our Strategic Management, Energy & Resources, and Environmental Management groups came together to help resource regulators in Peru plan and write the regulations for the development of a sustainable hydrocarbon industry. The procedures and protocols we put forward in our plan will go a long way toward minimizing the environmental impact of hydrocarbon development in the country while producing positive social and economic benefits by providing a source of clean, low-cost energy.

## Environmental solutions

Our people are providing solutions for sustaining air, water, and soil quality and the health of natural ecosystems. For example, our Environmental Management group worked with the Royal Botanical Gardens in Parry Sound, Ontario, to restore 2 hectares (5 acres) of wetland that were destroyed in the cleanup of a train derailment. Using only native plant species and minimizing the importation of soil, our innovative restoration plan resulted in a wetland that provides habitat for numerous species of aquatic and terrestrial animals and is consistent with typical landscapes found throughout the Canadian Shield. Our staff also designed the restoration of the

27-acre (11-hectare) Hillcrest Bay wetland located in the Cape Fear River Basin in Hoke County, North Carolina, employing hydrologic modeling methodologies. We will be conducting hydrologic and vegetative modeling at the site over the next five years. And after completing an environmental assessment of the Tuckasegee River at Dillsboro, North Carolina, for Duke Power, we developed a conceptual plan for removing the Dillsboro Dam, one of several hydroelectric projects in the area, and restoring the river to its natural condition. Our hands-on community approach—creating photo renderings and taking noise readings to demonstrate how the restored river would look and sound—helped alleviate residents' concerns about this major restoration project.

In the water resources area, our staff are contributing civil engineering, environmental management, and planning services to the El Rio Watercourse Master Plan project, which is intended to provide sustainable flood management solutions that will conserve the natural environment and allow for the future growth of communities along 18 miles (29 kilometres) of the Gila River in Maricopa County, Arizona. In enhancing the natural functions of the river, the plan will offer opportunities for riparian and wetland restoration, recreation, environmental

**Britannia Mine Water Treatment Plant, Vancouver, British Columbia**
We provided integrated design services for the development of a water treatment plant that is cleaning up acid mine drainage caused by the former operations of the Britannia copper mine.



education, and preservation of wildlife habitat. Next door in El Dorado County, California, our multidiscipline team of engineers, landscape architects, planners, biologists, and hydrologists is providing a range of services for implementing environmental improvement program projects designed to preserve, restore, and enhance the natural and human environment of the Lake Tahoe Basin. These projects relate specifically to improving water and air quality, including analyses of existing storm drainage systems in order to reduce the sediment and nutrient contamination present in stormwater runoff to the lake. In another project in British Columbia, our staff have helped to clean up acid mine drainage into Britannia Creek and Howe Sound caused by the former operations of the Britannia Mine, which, during the 1930s, was the largest copper mine in the British Empire. We provided integrated design services, including architecture and civil, process mechanical, structural, and electrical and controls engineering, for the fast-tracked delivery of a water treatment plant at the mine site. Upon commissioning of the plant in October 2005, clean water was discharged into Howe Sound for the first time in 100 years. Moreover, the plant design featured a microhydroturbine power generation system that uses the mine water to produce green power for the plant's operations.

In the area of soil and groundwater remediation, we are using dual-phase vacuum extraction technology enhanced with nutrient injection to remove petroleum hydrocarbon contaminants from the soil and groundwater at a former manufacturing facility site in Moose Jaw, Saskatchewan. To date, our work has resulted in the recovery of more than 20,000 litres (5,283 US gallons) of petroleum hydrocarbons present in the subsurface soil as well as a reduction in total petroleum hydrocarbon concentrations present in recovered groundwater to below detection limits.

And, finally, our staff are recognized for their innovative applications of emerging technologies such as ecotoxicological and microbiological testing, biological nutrient removal, phosphorous recovery, and real time control of combined and sanitary sewer overflow. For example, we are designing improvements to the biological nutrient removal process (the biological removal of phosphorous and nitrogen from wastewater) in use at the Little Patuxent Water Reclamation Plant in Howard County, Maryland, to help our client meet stringent new nutrient standards for water systems within the Chesapeake Bay watershed. We have also been involved in conducting pilot studies at the Penticton and Lulu Island Wastewater Treatment Plants in British Columbia to test the use of a synthetic supernatant in recovering phosphorous, a non-renewable resource, from biological waste as well as in controlling the presence of struvite crystals in the wastewater treatment process. Ultimately, these studies will lead to the recycling of recovered phosphorous as commercial-grade fertilizer.

These are just some examples of the solutions we provide to contribute to a sustainable future.

# AT STANTEC WE PROVIDE SUSTAINABLE SOLUTIONS FOR OUR COMMUNITIES.

To honor our commitment to social sustainability, we strive to enhance the knowledge, prosperity, health and wellness, and quality of life of the communities in which we work across North America. We view our contributions as important building blocks in helping to establish and maintain a solid, broadly based community infrastructure.




**Habitat for Humanity Build, Orange County, California**
Staff from our Irvine office joined forces with the Orange County Habitat for Humanity organization to build affordable housing for area families in need.



Employees in our Markham and Mississauga offices parted with their hair in support of a fund-raiser for the Canadian Breast Cancer Foundation hosted by a local radio station.

Our scholarship program provides funding for students principally in the architecture, engineering, and related design fields in each of our regions

Our Community Investment Program supports endeavors in four primary areas: the arts, education, health and wellness, and the environment. Our objectives for the program are to donate one percent of our annual pretax profits to charitable and non-profit organizations, encourage personal charitable giving by employees, and promote and facilitate employee volunteerism.

Staff in Edmonton showed their community spirit by participating in a street hockey tournament to raise funds for the 2005 Edmonton United Way Campaign.



In 2005 we celebrated the presentation of the first scholarships in the Stantec Scholarship Program in partnership with major universities across North America. Our scholarship program provides funding for students principally in the architecture, engineering, and related design fields in each of our regions. We also made a significant investment in the Faculty of Engineering at the University of Alberta (Edmonton), which will help create a world-class new educational and research environment for engineering students, faculty, and staff, including the state-of-the-art, multimedia Stantec Lecture Theatre. And we supported the work of health care, arts, and environmental organizations



**Annual Trash Roundup, Sacramento, California**
Employees in Sacramento helped clean up the nearby city of Folsom as part of an annual trash roundup sponsored by the local chapter of the American Public Works Association.

**Social Functions Committee Picnic, Las Vegas, Nevada**
Our Las Vegas office Social Functions Committee hosted a picnic lunch—complete with several games of Braille Bingo—for guests from the Blind Center of Nevada.



Company wide, including the Woodlands Recreation Foundation in Sacramento, California, Water for People in Toronto, Ontario, the Grand River Hospital Foundation in Kitchener, Ontario, the Carnegie Community Centre Association in Vancouver, British Columbia, and the E.A. Rawlinson Centre for the Arts in Prince Albert, Saskatchewan.

Acting on their concern for community well-being, Stantec staff across the Company supported numerous community endeavors through donations of their time, expertise, and skills during the year. For example, employees from our Regina, Saskatchewan, office contributed their landscape architecture skills to the development of a naturalized park on a half-acre area of neglected lawn at the site of the Regina and District Food Bank's new community outreach center. Along with designing the park, our staff planted more than 230 trees, shrubs, and flowers—mostly native species—at the site. And staff from our Rochester, New York; Calgary, Alberta; Edmonton, Alberta; and Irvine, California, offices worked to address the issue of substandard housing in their community by helping to build homes with Habitat for Humanity.

Throughout the year, successful employee fund-raising campaigns in all Stantec locations resulted in contributions to the United Way, Kids Cure for Cancer, the Heart and Stroke Foundation, Big Brothers Big Sisters, Food for Thought, and many other worthwhile organizations. In addition, staff across the Company reached out to support victims of Hurricane Katrina with donations of money and supplies, including a vanload of teddy bears gathered as part of a citywide relief effort carried out in Edmonton.

These are only a few examples of the many ways in which Stantec is a sustaining force in communities across North America.

# STANTEC INC.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

and

## CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2005, and 2004

# STANTEC INC.
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## MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of Stantec's operations and financial position, dated February 10, 2006, should be read in conjunction with the Company's 2005 audited consolidated financial statements and related notes. Our 2005 audited consolidated financial statements are prepared in accordance with generally accepted accounting principles (GAAP) in Canada, which differ in certain respects from GAAP in the United States. Note 20 of the audited consolidated financial statements summarizes the principal differences between Canadian and US GAAP that affect our financial statements. Unless otherwise indicated, all amounts shown below are in Canadian dollars. Additional information regarding the Company, including the Annual Information Form, is available on SEDAR at www.sedar.com. Such additional information is not incorporated by reference and should not be deemed to be made part of this Management's Discussion and Analysis.

## CAUTION REGARDING FORWARD-LOOKING STATEMENTS

Stantec's public communications often include written or verbal forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act and Canadian securities law. Forward-looking statements are disclosures regarding possible events, conditions, or results of operations that are based on assumptions about future economic conditions and courses of action and include future-oriented financial information.

Statements of this type are included in this report and may be included in filings with securities regulators or in other communications. Forward-looking statements may involve, but are not limited to, comments with respect to our objectives for 2006 and beyond, our strategies or future actions, our targets, our expectations for our financial condition or share price, and the results of or outlook for our operations or for the Canadian and US economies.

By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties. There is a significant risk that predictions and other forward-looking statements will not prove to be accurate. We caution readers of this report to not place undue reliance on our forward-looking statements since a number of factors could cause actual future results, conditions, actions, or events to differ materially from the targets, expectations, estimates, or intentions expressed in these forward-looking statements.

Factors listed in the Risk Factors section below could cause Stantec's actual results to differ materially from those projected in our forward-looking statements. Investors and the public should carefully consider these factors, other uncertainties, and potential events as well as the inherent uncertainty of forward-looking statements when relying on these statements to make decisions with respect to Stantec. We do not undertake to update any forward-looking statement, whether written or verbal, that may be made from time to time by the organization or on its behalf. The Risk Factors section details the risks, among others, that could cause Stantec's actual results to differ materially from those projected in our forward-looking statements.

## VISION, CORE BUSINESS, AND STRATEGY

Our Company provides professional consulting services in planning, engineering, architecture, interior design, landscape architecture, surveying and geomatics, environmental sciences, project management, and project economics for infrastructure and facilities projects. Through multidiscipline service delivery, we support clients throughout the project life cycle—from the initial conceptual planning to project completion and beyond.

Our goal is to become a top 10 global design and consulting services firm with $1 billion in annual revenue by the year 2008 while providing quality services that have a positive impact on our world. To achieve this objective, we will continue to deliver fee-for-service professional services in the infrastructure and facilities market and to pursue a prudent growth plan. We are confident that we can reach our goal because of the large size of the infrastructure and facilities market and because of the dedication of our employees, who give us our competitive advantage: the ability to execute a sustainable business strategy.

Our business strategy is based on managing risk by a) diversifying our operations through a focused, three-dimensional business model, b) servicing many clients on many projects, c) taking on little or no construction risk, d) and positioning ourselves among the top three service providers in our geographic regions and practice areas. Through our "One Team. Infinite Solutions." approach to our business, we are able to undertake infrastructure and facilities projects of any size for both public and private sector clients. Currently, the majority of assignments we pursue are small to midsize projects with a capital value of less than $100 million offering potential project fees for Stantec of less than $10 million. These types of projects represent the largest share of the infrastructure and facilities market. Focusing on this project mix continues to ensure that we do not rely on a few large, single projects for our revenue and that no single client or project accounts for more than 5% of our overall business.

Our focused, three-dimensional business model allows us to manage risk while continuing to increase our revenue and earnings. It is based on diversifying our operations across distinct geographic regions, specializing in distinct but complementary practice areas, and providing services in all five phases of the infrastructure and facilities project life cycle (planning, design, construction, maintenance, and decommissioning). Although we employ this three-dimensional matrix model, to meet GAAP requirements in Canada and the United States, we have one reportable segment—Consulting Services. We consider the basis on which we are organized, including geographic areas and service offerings, in identifying our reportable segments. Operating segments of the Company are defined as components of the Company for which separate financial information is available that is evaluated regularly by the chief operating decision maker in allocating resources and assessing performance. Our chief operating decision maker is our Chief Executive Officer (CEO), and our operating segments are based on our regional geographic areas. We have established practice areas as a technical rather than financial structure to provide strategic direction, mentoring, and technical support across all of our geographic regions.

The following explains the three main components of our business model.

### Geographic Diversification

Currently, we operate in three economic regions in Canada and the United States and have a project presence in the Caribbean and other selected international locations. Our strategy for increasing our geographic reach is made up of two components. The first component is to grow our existing regional operations by expanding our services particularly in areas where we have not yet reached a mature market

presence. We target to achieve a market penetration of $10 million in revenue per 1 million people in these regions. Secondly, our strategy is to expand outside our existing regions principally in the United States and Canada. We plan to continue to grow geographically primarily by acquiring firms that meet our integration criteria and to a lesser extent by expanding organically.

**Practice Area Specialization**

Our business model is also based on specializing in distinct but complementary project services. Currently, we provide services in five practice areas—Buildings, Environment, Industrial & Project Management, Transportation, and Urban Land.

**Buildings.** We provide comprehensive solutions for the development of commercial, industrial, and institutional facilities through two specialist practice areas: Architecture, Interior Design & Facilities Planning & Operations and Buildings Engineering. Our core services in these areas include project/program management, facilities management, strategic planning, architectural design, interior design, and structural, mechanical, and electrical engineering for both new construction and existing buildings and facilities. For existing buildings, we offer expertise in building operating systems (including analysis of a building's exterior envelope and evaluation of air quality, lighting, and energy efficiency), performance engineering, and ongoing tenant improvements.

**Environment**. We provide solutions for sustaining air, water, and soil quality as well as the health of natural ecosystems through two specialist practice areas: Environmental Infrastructure and Environmental Management. Our core services in these areas include water supply, distribution, pumping, storage, and treatment; wastewater collection, pumping, management, and treatment; odor and corrosion control; water resources management; water reclamation and reuse; environmental site management; environmental assessment; heritage and natural resource assessment; risk assessment; health and safety assessment; air quality assessment; infiltration and inflow design/combined and sanitary sewer overflow technology; ecotoxicology and good laboratory practice testing; and microbiological testing.

**Industrial & Project Management.** We provide industrial solutions to clients in the automotive, chemical, consumer products, forestry, food and beverage, bio/pharmaceuticals, power generation, pulp and paper, utilities, mining, and general manufacturing sectors. Our core services include planning, engineering, and project management, which we deliver through four specialist practice areas: Manufacturing/Industrial, Energy & Resources, Bio/Pharmaceuticals, and Program & Project Management. We also provide specialty services in occupational health and safety, system integration, instrumentation and control, electrical energy and power management, facility planning and design, industrial engineering, logistics, materials handling, and commissioning.

**Transportation.** We offer transportation solutions for the safe and efficient movement of people, vehicles, aircraft, and goods through two specialist practice areas: Transportation and Infrastructure Management & Pavement Engineering. Our core services include project management, planning, and engineering. We prepare transportation master plans for communities and airports; conduct transportation investment studies; and design new and upgraded airport facilities, transit facilities, bridges, urban roadways, freeways, interchanges, rural highways, and rail systems. In addition, we offer expertise in simulation modeling, a comprehensive understanding of transportation demand and supply management principles, extensive use of a range of life cycle cost and statistical analysis techniques, and skills in public consultation and environmental assessment for developing infrastructure facility plans with broad public

support. A key feature of our transportation services is our expertise in designing, developing, and implementing integrated infrastructure/asset management systems and work management applications for pavement, bridges, right-of-way features, water, wastewater, stormwater, utilities, and other assets.

**Urban Land.** We provide planning, engineering, surveying, project management, and landscape architecture solutions principally for the land development and real estate industries through three specialist practice areas: Planning & Landscape Architecture, Urban Land Engineering, and Surveys/Geomatics. Our core services include or relate to the development of conceptual plans, zoning approval of design infrastructure, transportation planning, traffic engineering, landscape architecture, urban planning, design construction review, and surveying.

Focusing on this combination of project services helps differentiate us from our competitors, allowing us to enhance our presence in new geographic regions and markets and to establish and maintain long-term client relationships. Our strategy for strengthening this element of our business model is to expand the depth of our expertise in our current practice areas and to selectively add complementary new practice areas to our operations.

### Life Cycle Solutions

The third element of our business model is the provision of professional services in all five phases of the project life cycle—planning, design, construction, maintenance, and decommissioning. This inclusive approach enables us to deliver services during periods of strong new capital project activity (i.e., design and construction) as well as periods of lower new capital project expenditures (i.e., maintenance and rehabilitation). Beginning with the planning and design stages, we provide conceptual and detailed design services, conduct feasibility studies, and prepare plans and specifications. During the construction phase, we generally act as the owners' representative, providing project management, surveying, and resident engineering services. We focus principally on fee-for-service type work and generally do not act as the contractor or take on construction risk. Following project completion, during the maintenance stage, we provide ongoing professional services for maintenance and rehabilitation projects in areas such as facilities and infrastructure management, facilities operations, and performance engineering. Finally, in the decommissioning phase, we provide solutions and recommendations for taking facilities out of active service.

## KEY PERFORMANCE DRIVERS AND CAPABILITIES

At Stantec our performance depends on our ability to attract and retain qualified people; make the most of market opportunities; finance our growth; find, acquire, and integrate firms and/or new employees into our operations; and achieve top-three market penetration in the geographic areas we serve. Based on our success with these drivers, we believe that we are well positioned to continue to be a major provider of professional design and consulting services in our principal geographic regions.

### People

Because we are a professional services firm, the most important driver of our performance is our people. Our employees create the project solutions we deliver to clients. Consequently, to achieve our goal of becoming a top 10 global design firm, we must grow our workforce through a combination of internal hiring and acquisitions. We measure our success in this area by total staff numbers. In 2005 our employee numbers increased to approximately 5,500 from 4,350 in 2004. Currently, our workforce is made up of

about 2,700 professionals, 2,000 technical staff, and 800 support personnel. We expect our employee numbers to continue to increase in 2006 and beyond as we pursue our growth plan.

To attract and retain qualified staff, we offer opportunities to be part of a multidiscipline team working on challenging projects with some of the best people in our industry. We are continually strengthening our people-oriented culture, and in 2005 we completed a number of activities, including the implementation of an individual career development and performance review process as well as the design and implementation of a Company-wide benefits program that is responsive to both the external environment and our internal staff needs. During the year, we also introduced additional staff training programs and launched our Learning Resource Center, the on-line source for scheduling, registration in, and access to our learning programs and material. And we introduced courses related to people skills and leadership, risk management, and business development for our leaders. Going forward, we will continue to develop course curricula in response to the needs of our staff.

Our "diversified portfolio" approach to business—operating in different regions and practice areas—generally enables us to redeploy a portion of our workforce when faced with changes in local, regional, or national economies or practice area demand. Currently, we see no overall shortage of qualified staff for our operations. Although there will always be some areas where it will be difficult to find appropriate staff during certain periods, as we increase in size we become more able to address these issues by mobilizing staff from other parts of the Company either through temporary relocation or changes in work allocation. We are continually improving our ability to work on projects from multiple locations through Web-based technology.

**Market Opportunities/Acquisition and Integration**

Another key driver of our success is our ability to make the most of opportunities to grow in our marketplace. We believe that growth is necessary in order to enhance the depth and breadth of our expertise, broaden our services, increase our shareholder value, provide more opportunities for our employees, and lever our information technology systems. Our strategy is to combine internal growth with the acquisition of firms that believe in our vision and want to be part of our dynamic Company. Since we became publicly traded on the Toronto Stock Exchange (TSX) in 1994, we have integrated a total of approximately 4,000 employees into the Stantec family from throughout Canada, the United States, and the Caribbean. In 2005 we completed three acquisitions, one in the United States, which established a new geographic region in southern California, and two in western Canada. In total, these acquisitions added approximately 1,160 employees to our operations. We are confident that we can continue to take advantage of acquisition opportunities because we operate in an industry sector that includes more than 100,000 firms and is estimated to generate over US$60 billion in revenue in North America every year, of which we currently have approximately a 1% market share. (According to the *Engineering News Record*, the largest 500 engineering and architecture companies in the United States alone generated nearly US$60 billion in fees in 2004.)

The integration of acquired firms begins immediately following the acquisition closing date and may take between six months and three years. It involves incorporation into our Company-wide information technology and financial management systems as well as provision of "back office" support services from our corporate office. This approach allows our new staff to focus on continuing to serve clients with minimal interruption of their daily activities.

Our acquisition program is managed by an acquisition team that is dedicated to supporting our growth objectives. The team is responsible for identifying and valuing acquisition candidates, undertaking and coordinating due diligence, negotiating and closing transactions, and assisting with the integration of employees and systems.

### Financing

Our success also depends on our continuing ability to finance our growth plan. Adequate financing gives us the flexibility to acquire firms that are appropriate to our vision and complement our business model. Since we became publicly traded on the TSX in 1994, we have grown at a compound annual rate of 19.3%. To fund such growth, we require cash generated from both internal and external sources. Historically, we have completed acquisitions using mostly cash and notes while at opportune times raising additional equity to replenish our cash reserves, pay down debt, or strengthen our balance sheet. To date, we have issued additional shares for these purposes on four occasions—in 1997, 2000, 2002, and 2005. The issuance of additional shares in 2005 was related to the acquisition of The Keith Companies, Inc. In 2005 we replaced our existing credit facility with a three-year revolving credit facility that provides us with a line of credit of $160 million. Such financing will help us continue to pursue our growth plan.

### Market Penetration

Also key to our success is achieving a certain level of market penetration in the geographic areas we serve. Our goal is to be among the top three service providers in each of our geographic regions and practice areas. With this level of market presence, we are less likely to be affected by downturns in regional economies. Top-three positioning also gives us increased opportunities to work for the best clients, obtain the best projects, and attract the best employees in a region, and is important for building or maintaining the critical mass of staff needed to generate consistent performance and to support regional infrastructure.

## RESULTS

### Overall Performance

### Highlights for 2005

By executing our business strategy in 2005, we generated strong results for the fiscal year as well as incremental growth compared to 2004 in gross revenue, net income, and earnings per share as follows:

| | 2005 | 2004 | $ Change | % Change |
|---|---|---|---|---|
| | *(In millions of Canadian dollars, except per share amounts)* | | | |
| Gross revenue | 618.0 | 520.9 | 97.1 | 18.6% |
| Net income | 40.6 | 30.2 | 10.4 | 34.6% |
| Earnings per share – basic | 2.04 | 1.63 | 0.41 | 25.2% |
| Earnings per share – diluted | 1.98 | 1.59 | 0.39 | 24.5% |
| Cash flows from operating activities | 57.3 | 77.4 | (20.1) | n/a |
| Cash flows used in investing activities | (114.6) | (10.2) | (104.4) | n/a |
| Cash flows from (used in) financing activities | 47.9 | (36.0) | 83.9 | n/a |

In our 2004 Management's Discussion and Analysis, we established various ranges of expected performance. Below are the successful results we achieved in 2005 as we met or exceeded all of our established targets:

| Measure | Expected Range | Result Achieved |
|---|---|---|
| Debt to equity ratio *[note 1]* | At or below 0.5 to 1 | 0.17 * |
| Return on equity *[note 2]* | At or above 14% | 16.0% * |
| Net income as % of net revenue | At or above 5% | 7.7% * |
| Gross margin as % of net revenue | Between 53 and 55% | 55.3% √ |
| Administrative and marketing expenses as % of net revenue | Between 40 and 42% | 40.5% * |
| Effective income tax rate | Between 33 and 35% | 35.0% * |

*note 1: Debt to equity ratio is calculated as the sum of (1) long-term debt, including current portion, plus bank indebtedness, minus cash divided by (2) shareholders' equity.*
*note 2: Return on equity is calculated as net income for the year divided by average shareholders' equity over each of the last four quarters.*
*√ Exceeded target*
** Met target*
*x Did not meet target*

The following highlights the major strategic activities that occurred in 2005 as well as other factors that contributed to our successful financial performance and our strong overall financial condition:

- **Growth by acquisition.** In 2005 the acquisition and integration of CPV Group Architects & Engineers Ltd. (CPV), The Keith Companies, Inc. (Keith), and Keen Engineering Co. Ltd. (Keen) contributed to our growth by adding 1,160 employees and increasing the depth and breadth of our services in both Canada and the United States. Our cash used in investing activities increased in 2005 due to the consideration paid for these three acquisitions. The integration of these businesses in 2006 will further strengthen our existing complement of professional staff and client base.

- **Internal growth.** In addition to acquisition activities, internal growth contributed to the above increase in gross revenue and net income. Of the $97.1 million increase in gross revenue during 2005, $22.8 million was attributable to organic internal growth.

- **New York Stock Exchange listing.** During the third quarter, we began trading our common shares on the New York Stock Exchange (NYSE) under the symbol SXC in addition to trading through our existing TSX listing of STN. We believe our new listing gives us exposure to a larger capital base and the opportunity to increase our revenue by strengthening our brand recognition in the United States and enhances our ability to attract acquisition opportunities.

- **Credit facility.** During the third quarter of 2005, we replaced our existing credit facility with a $160 million, three-year revolving credit facility to be available for future acquisitions, working capital needs, capital expenditures, and general corporate purposes. During the third quarter, we borrowed $95.9 million under the credit facility to complete the Keith acquisition and repaid $16.9 million in the fourth quarter, leaving $81.0 million available at December 31, 2005, for future activities.

- **Flat rate disbursements.** During 2005, we implemented a flat rate disbursement practice as a means of simplifying the recovery of administrative disbursements related to billable projects. The impact of this change contributed 1.2% to our 55.3% gross margin, which exceeded our expected range of performance for 2005 and surpassed our 2004 gross margin of 54.2%.

- **Tax initiatives.** Through the continual upgrading of our enterprise management system in 2005, we were able to improve the identification of billable projects that meet the criteria for Scientific Research and Experimental Development (SR&ED) tax credits in Canada. These SR&ED credits reduced our income taxes payable as well as our administrative and marketing expenditures by $1.2 million in 2005. In addition, 2005 saw the introduction of the American Jobs Creation Act, which provides a tax deduction for income from qualified production activity in the United States, to be phased in from 2005 to 2010. We have identified a portion of our activities in the United States that meet the definition of qualified activities for this deduction.

### Acquisitions

We completed three acquisitions in 2005 for total consideration of $228.7 million and four acquisitions in 2004 for total consideration of $20.3 million. In August 2005 we acquired CPV, which added over 60 people to Stantec Architecture Ltd.'s Alberta and British Columbia offices, enhancing its position as the largest and most geographically diverse architecture and interior design firm in Canada. In September 2005 the acquisition of Keith added over 850 people to supplement our strength in our Urban Land practice area and increase the depth and breadth of our multidiscipline engineering and consulting services in the western and midwestern United States. The Keith acquisition was the largest acquisition in the history of our Company. In October 2005 the acquisition of Keen added over 250 people to our building design services in Canada and the western United States, which was an important step in the evolution of our sustainable design capabilities. As a result of our investment in our enterprise management system in 2003 and subsequent enhancements, we were able to quickly integrate Keith's and Keen's financial and management data in the fourth quarter of 2005.

### Selected Annual Information

We have demonstrated strong and steady sustainable financial growth in the last three years as highlighted in the trending of the annual information below:

| | Selected Annual Information | | |
|---|---|---|---|
| | 2005 | 2004 | 2003 |
| | *(In millions of Canadian dollars, except per share amounts)* | | |
| Gross revenue *[note]* | 618.0 | 520.9 | 459.9 |
| Net income | 40.6 | 30.2 | 25.1 |
| Earnings per share – basic | 2.04 | 1.63 | 1.37 |
| Earnings per share – diluted | 1.98 | 1.59 | 1.31 |
| Cash dividends declared per common share | nil | nil | nil |
| Total assets | 628.8 | 362.1 | 326.6 |
| Total long-term debt | 86.7 | 34.0 | 44.6 |
| Outstanding common shares – as at December 31 | 22,313,131 | 18,871,085 | 18,327,284 |
| Outstanding common shares – as at February 10, 2006 | 22,509,948 | | |
| Outstanding share options – as at December 31 | 938,264 | 1,071,333 | 1,479,100 |
| Outstanding share options – as at February 10, 2006 | 749,611 | | |

*note: The term gross revenue is defined in the Critical Accounting Estimates, Developments, and Measures section of this Management's Discussion and Analysis.*

The three acquisitions completed in 2005, the four completed in 2004, and the three completed in 2003 contributed to our year-over-year growth in gross revenue and net income. The $266.7 million increase in total assets from 2004 to 2005 was mainly due to the acquisition of $162.1 million in goodwill and of $24.0 million in intangible assets in the three acquisitions completed in 2005. The intangible assets consisted primarily of acquired client relationships ($18.4 million) and contract backlog ($5.0 million), which will be amortized as a charge to net income at various rates over one to 15 years. During the third quarter of 2005, we conducted our annual goodwill impairment review. An independent third party was contracted to perform a valuation of the goodwill of our operations in the US Southeast. The review concluded that there was no impairment of goodwill. Other increases in assets in 2005 can be attributed to internal growth and growth through acquisitions.

Our total liabilities increased $107.7 million from 2004 to 2005 mainly due to a $55.0 million increase year over year in bank debt. Accounts payable and future income tax liabilities also contributed to the year-over-year increase in total liabilities. These grew as a result of our growth internally as well as our growth through acquisitions.

**Results of Operations**

Our Company operates in one reportable segment—Consulting Services. We provide knowledge-based solutions for infrastructure and facilities projects through value-added professional services principally under fee-for-service agreements with clients.

The following table summarizes our key operating results on a percentage of net revenue basis and the percentage increase in the dollar amount of these results from year to year:

| | Percentage of Net Revenue | | | Percentage Increase * | |
|---|---|---|---|---|---|
| | 2005 | 2004 | 2003 | 2005 vs. 2004 | 2004 vs. 2003 |
| **Gross revenue** | 117.8% | 116.0% | 117.5% | 18.6% | 13.2% |
| **Net revenue** | 100.0% | 100.0% | 100.0% | 16.8% | 14.8% |
| Direct payroll costs | 44.7% | 45.8% | 46.9% | 14.1% | 12.0% |
| **Gross margin** | 55.3% | 54.2% | 53.1% | 19.0% | 17.2% |
| Administrative and marketing expenses | 40.5% | 40.9% | 39.5% | 15.7% | 18.7% |
| Depreciation of property and equipment | 2.4% | 2.7% | 2.5% | 3.4% | 20.9% |
| Amortization of intangible assets | 0.5% | 0.2% | 0.2% | 174.2% | 0.2% |
| Net interest expense | 0.1% | 0.6% | 0.7% | (79.6%) | 6.4% |
| Share of income from associated companies | 0.0% | (0.1%) | (0.1%) | (51.4%) | (33.6%) |
| Foreign exchange (gains) losses | (0.1%) | 0.0% | 0.2% | – | (115.3%) |
| **Income before income taxes** | 11.9% | 9.9% | 10.1% | 39.9% | 12.7% |
| Income taxes | 4.2% | 3.2% | 3.7% | 51.2% | (0.6%) |
| **Net income** | 7.7% | 6.7% | 6.4% | 34.6% | 20.4% |

** % Increase calculated based on the dollar change from the comparable period.*

Our gross and net revenue grew at a faster rate during 2005 than during 2004 mainly due to the size of acquisitions that occurred in the latter half of 2005. At the same time, administrative and marketing expenses grew at a lower rate than the rate of growth in revenue. As well, the amortization of intangible assets increased in 2005 versus 2004 due to factors further explained in the Amortization of Intangible Assets section below.

### Gross and Net Revenue

The following table summarizes the impact of acquisitions, internal growth, and foreign exchange on our gross and net revenue for 2005 compared to 2004 and for 2004 compared to 2003. For a definition of gross and net revenue, refer to Definition of Non-GAAP Measures in the Critical Accounting Estimates, Developments, and Measures section of this Management's Discussion and Analysis.

| **Gross Revenue** | **2005 vs. 2004** | **2004 vs. 2003** |
|---|---|---|
| | *(In millions of Canadian dollars)* | |
| Increase (decrease) due to: | | |
| Acquisitions completed in current and prior two years | 88.1 | 42.3 |
| Net internal growth | 22.8 | 30.0 |
| Impact of foreign exchange rates on revenue earned by foreign subsidiaries | (13.8) | (11.3) |
| Total increase over prior year | 97.1 | 61.0 |

| **Net Revenue** | **2005 vs. 2004** | **2004 vs. 2003** |
|---|---|---|
| | *(In millions of Canadian dollars)* | |
| Increase (decrease) due to: | | |
| Acquisitions completed in current and prior two years | 65.2 | 36.4 |
| Net internal growth | 22.1 | 31.3 |
| Impact of foreign exchange rates on revenue earned by foreign subsidiaries | (11.9) | (9.9) |
| Total increase over prior year | 75.4 | 57.8 |

Gross revenue earned in Canada during 2005 increased to $380.5 million from $325.8 million in 2004 and $290.4 million in 2003. Gross revenue generated in the United States in 2005 increased to $233.4 million compared to $190.4 million in 2004 and $161.7 million in 2003. Gross revenue earned outside Canada and the United States in 2005 was $4.1 million, compared to $4.7 million in 2003 and $7.9 million in 2002. The increase in revenues in both our US- and Canadian-based operations was positively impacted by the acquisitions completed in 2005 and 2004.

The following table summarizes our gross revenue by practice area for 2005, 2004, and 2003:

| Practice Area Gross Revenue | 2005 | % of Consulting Services Gross Revenue | % Change 2005 vs. 2004 | 2004 | % of Consulting Services Gross Revenue | % Change 2004 vs. 2003 | 2003 | % of Consulting Services Gross Revenue |
|---|---|---|---|---|---|---|---|---|
| | *(millions of C$)* | | | *(millions of C$)* | | | *(millions of C$)* | |
| Environment | 104.5 | 16.9% | (0.9%) | 105.5 | 20.3% | 14.9% | 91.8 | 20.1% |
| Buildings | 159.2 | 25.8% | 48.1% | 107.5 | 20.7% | 19.5% | 89.9 | 19.7% |
| Transportation | 92.1 | 14.9% | (0.5%) | 92.6 | 17.8% | 15.0% | 80.5 | 17.7% |
| Urban Land | 208.9 | 33.8% | 23.7% | 168.9 | 32.5% | 5.6% | 159.9 | 35.1% |
| Industrial & Project Management | 53.3 | 8.6% | 17.4% | 45.4 | 8.7% | 36.2% | 33.3 | 7.4% |
| Total Consulting Services | 618.0 | 100.0% | 18.9% | 519.9 | 100.0% | 14.1% | 455.4 | 100.0% |

As indicated above, our gross revenue was impacted by the acquisitions we completed in the current and prior two years, net internal growth, and the effect of foreign exchange rates on revenue earned by our foreign subsidiaries. The impact of these factors on our gross revenue earned by practice area is summarized below:

| | 2005 Compared to 2004 | | | 2004 Compared to 2003 | | |
|---|---|---|---|---|---|---|
| Practice Area Gross Revenue | Total Change | Change Due to Acquisitions | Change Due to Net Internal Growth and Foreign Exchange | Total Change | Change Due to Acquisitions | Change Due to Net Internal Growth and Foreign Exchange |
| | *(In millions of Canadian dollars)* | | | | *(In millions of Canadian dollars)* | |
| Environment | (1.0) | 8.1 | (9.1) | 13.7 | (0.1) | 13.8 |
| Buildings | 51.7 | 43.6 | 8.1 | 17.6 | 11.7 | 5.9 |
| Transportation | (0.5) | (0.3) | (0.2) | 12.1 | 11.4 | 0.7 |
| Urban Land | 40.0 | 29.2 | 10.8 | 9.0 | 6.3 | 2.7 |
| Industrial & Project Management | 7.9 | 7.5 | 0.4 | 12.1 | 13.0 | (0.9) |
| Total Consulting Services | 98.1 | 88.1 | 10.0 | 64.5 | 42.3 | 22.2 |

The following summarizes the acquisitions completed from 2003 to 2005 that impacted each of our practice areas:

- Environment: The Keith Companies, Inc. (September 2005); The Sear-Brown Group Inc. (April 2004); and Ecological Services Group Inc. (May 2003).

- Buildings: Keen Engineering Co. Ltd. (October 2005); The Keith Companies, Inc. (September 2005); CPV Group Architects & Engineers Ltd. (August 2005); GBR Architects Limited (May 2004); Dunlop Architects Inc. (October 2004); The Sear-Brown Group, Inc. (April 2004); and APAI Architecture Inc. and Mandalian Enterprises Limited (January 2003).

- Transportation: The Sear-Brown Group, Inc. (April 2004).

- Urban Land: The Keith Companies, Inc. (September 2005) and The Sear-Brown Group, Inc. (April 2004).

- Industrial & Project Management: The Keith Companies, Inc. (September 2005) and The Sear-Brown Group, Inc. (April 2004).

All of our practice areas generate a portion of their gross revenue in the United States. The strengthening of the Canadian dollar against the US dollar in 2005 compared to 2004 and in 2004 compared to 2003 negatively impacted the change in gross revenue year over year. The average Canadian exchange rate appreciated against the US dollar by approximately 9.2% from 2004 to 2005 (US$0.76 to US$0.83) and by 7.0% from 2003 to 2004 (US$0.71 to US$0.76).

Gross revenue for the Environment practice area decreased by 0.9% from 2004 to 2005, compared to a 14.9% increase from 2003 to 2004. In 2005 the Environment practice area focused on improving the operational effectiveness of underperforming operations. During the last half of 2004, certain of our operations in the Environment practice area were curtailed through staff reductions, resulting in a decrease in the level of revenue generated in 2005. This strategic realignment enhanced the Environment practice area's ability to improve its gross margin (56.5% in 2005 versus 55.2% in 2004) and should enhance its ability to increase its contribution to the Company's results in the future.

Gross revenue for the Buildings practice area grew 48.1% from 2004 to 2005, compared to a 19.5% increase from 2003 to 2004. The percentage increase resulted from a combination of internal growth, growth through acquisitions, the presence of strong economies in the regions in which the practice area operates, and our transition from a group of local and regional offices into a national practice able to provide sought-after expertise in markets such as health care, research, education, and aviation.

Gross revenue for the Transportation practice area decreased by 0.5% from 2004 to 2005, compared to a 15.0% increase from 2003 to 2004. The $12.1 million increase during 2004 was primarily due to the Sear-Brown acquisition, which added considerable Transportation presence in the United States. Delays in US federal transportation funding in 2005 contributed to the $1.0 million decline in US gross revenue from the Sear-Brown acquisition during 2005. Opportunities in the United States are expected to increase with the recent signing of the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users. This bill provides over US$286.4 billion for US federal surface transportation programs relating to highway, highway safety, and transit projects for the five-year period from 2005 to 2009.

Gross revenue for the Urban Land practice area grew by 23.7% from 2004 to 2005, compared to a 5.6% increase from 2003 to 2004. This practice area grew both internally and through acquisitions during 2004 and 2005. Of the $40.0 million increase in gross revenue in 2005, $29.2 million was the result of acquisitions, of which $28.4 million was due to the acquisition of Keith in September.

Gross revenue for the Industrial & Project Management practice area grew by 17.4% from 2004 to 2005 and increased by 36.2% from 2003 to 2004. Of the $7.9 million increase during 2005, $5.8 million was due to the Sear-Brown acquisition. Of the $12.1 million increase in 2004, $13.0 million was due to the Sear-Brown acquisition offset by the negative impact of the strengthening Canadian dollar.

### Gross Margin

For a definition of gross margin, refer to the Definition of Non-GAAP Measures in the Critical Accounting Estimates, Developments, and Measures section below. Gross margin increased to 55.3% in 2005 from 54.2% in 2004 and 53.1% in 2003. During 2005, we implemented a flat rate disbursement practice as a means of simplifying the recovery of administrative disbursements related to billable projects. The impact of this change was a 1.2% increase in gross margin. In addition, the information available from our enterprise management system contributed to improved project management and enhanced gross margin in 2005. The increase in our gross margin percentage in 2004 from 2003 was due to the lower proportion of total labor that was charged to projects during 2004 compared to 2003 as well as the mix of projects in progress and being pursued throughout the year. There will continue to be fluctuations in the margins reported from year to year as a result of the mix of projects in progress during any year.

The following table summarizes our gross margin percentages by practice area for 2005, 2004, and 2003:

| Practice Area Gross Margin | 2005 | 2004 | 2003 |
|---|---|---|---|
| Environment | 56.5% | 55.2% | 53.4% |
| Buildings | 55.7% | 53.1% | 53.0% |
| Transportation | 56.0% | 56.0% | 52.4% |
| Urban Land | 56.1% | 55.6% | 54.4% |
| Industrial & Project Management | 47.6% | 46.4% | 46.7% |

Gross margins in all practice areas have improved from 2003 to 2005 and are higher than the anticipated rate of 53 to 55% set out in our 2004 Management's Discussion and Analysis, with the exception of our Industrial & Project Management practice area where the year-to-date gross margin is 47.6%. This practice area experienced a slow start in the year; however, its margins are steadily increasing, and we believe opportunities exist to further increase its gross margins with the addition of skills from the Keith acquisition. The increase in gross margins in all practice areas in 2005 compared to 2004 can be attributed to the same factors discussed above. Our 2004 Transportation and Urban Land practice area gross margins increased over 2003 gross margins by 3.6% and 1.2%, respectively, primarily as a result of the type and size of the projects undertaken by these practice areas during 2004 as well as an increase in billing rates.

### Administrative and Marketing Expenses

Administrative and marketing expenses as a percentage of net revenue were 40.5% in 2005 (within the expected range of 40 to 42% for these expenses), compared to 40.9% in 2004 and 39.5% in 2003. Administrative and marketing expenses fluctuate as a result of the amount of staff time charged to marketing and administrative labor, which is influenced by the mix of projects in progress and being pursued throughout the year.

In 2005 administrative and marketing expenses were reduced by an adjustment to our estimate of allowance for doubtful accounts receivable based on improved information available on our historical loss experience. In addition, our enhanced processes for identifying projects that qualify for SR&ED tax credits reduced our administrative and marketing expenses by $1.2 million. The above reductions were offset by a year-over-year $4.6 million increase in our provision for professional liability claims, which was based on the results of an independent actuarial review completed in 2005. Administrative and marketing expenditures grew at a lower rate than the increase in net revenue in 2005 despite incremental administrative activities such as the costs incurred to become listed on the NYSE and to register with the U.S. Securities and Exchange Commission (SEC) and increased regulatory and governance activities as a

result of complying with Canadian and US securities regulators. The increase in administrative and marketing expenditures in 2004 compared to 2003 was due to a higher proportion of total labor being charged to administrative and marketing labor.

**Depreciation of Property and Equipment**

Depreciation of property and equipment as a percentage of net revenue was 2.4% in 2005, 2.7% in 2004, and 2.5% in 2003. In 2004 we began depreciating our new enterprise management system as well as our new office building in Edmonton, Alberta, resulting in an increase in depreciation from 2003 to 2004. The reduction in depreciation expense as a percentage of net revenue in 2005 related to the sale of our office building in Edmonton during the fourth quarter of 2004. Our depreciation expense on an absolute basis has remained relatively constant, while net revenue has increased, resulting in a reduction as a percentage of net revenue.

**Amortization of Intangible Assets**

The timing of completed acquisitions, the size of acquisitions, and the type of intangible assets acquired impact the amount of amortization of intangible assets in each year. Client relationships and other intangible assets are amortized over estimated useful lives ranging from 10 to 15 years, whereas contract backlog is amortized over an estimated useful life of generally less than one and a half years. As a result, the impact of amortization of contract backlog can be significant in the two to six quarters following an acquisition. The table below summarizes the amortization of identifiable intangible assets:

| | 2005 | 2004 | 2003 |
|---|---|---|---|
| | *(In thousands of Canadian dollars)* | | |
| Amortization of client relationships | 1,050 | 579 | 406 |
| Amortization of backlog | 1,349 | 239 | 438 |
| Other | 143 | 109 | 81 |
| Total amortization of intangible assets | 2,542 | 927 | 925 |

An increase of $1.6 million occurred from 2004 to 2005 due to the fair value of the intangibles identified upon the purchase of the three acquisitions in 2005. Of the $2.5 million amortized in 2005, $1.4 million related to the Keith acquisition. We recorded an amount of $4.0 million in contract backlog on the purchase of Keith. This amount will be amortized as an expense over 18 months from the date of acquisition. The amortization of intangible assets remained fairly constant from 2003 to 2004 because the value of the intangibles acquired during those two years was similar.

**Net Interest Expense**

The reduction of $2.2 million in net interest expense in 2005 compared to 2004 was a result of maintaining a positive net cash position during the first three quarters of 2005 compared to a position of bank indebtedness during the same period in 2004. In addition, our total long-term debt position during the first three quarters of 2005 was less than it was during the same period in 2004, which contributed to the reduction in overall interest expense. As at December 31, 2005, there were $50.0 million and US$25.0 million (C$29.0 million) outstanding on our new credit facility at an average interest rate of 4.34%. Depending on the form under which the credit facility is accessed and certain financial covenant calculations, rates of interest may vary between Canadian prime, US base rate, or LIBOR rate or bankers acceptance rates plus 65 or 85 basis points.

**Foreign Exchange Gains (Losses)**

We recorded a foreign exchange gain of $0.4 million in 2005, compared to a foreign exchange gain of $0.1 million in 2004 and a foreign exchange loss of $0.6 million in 2003. The foreign exchange gains and losses reported have arisen on the translation of the foreign-denominated assets and liabilities held in our Canadian companies and in our non-US-based foreign subsidiaries. Throughout 2003 and most of 2004, we used US-dollar-denominated debt to minimize our exposure to foreign currency fluctuations. Late in 2004, due to an improvement in our cash position, we were able to reduce the amount of this debt. Therefore, in order to minimize our exposure to foreign exchange fluctuations, we matched US-dollar assets with US-dollar liabilities and entered into forward contracts to buy or sell US dollars in exchange for Canadian dollars. In Q4 05, we borrowed US dollars to complete the Keith acquisition. The US-dollar debt offset our investment in US-dollar net assets and eliminated the need to enter into forward contracts.

In 2003 the Canadian dollar rose from US$0.63 at the beginning of the year to US$0.77 at the end of the year, and the impact of this significant change on our overall exposure to foreign currency assets resulted in an exchange loss of $0.6 million. In 2004 the Canadian dollar continued to strengthen to US$0.83, and we recorded a $0.1 million gain in 2004 as a result of better matching of US-dollar assets and liabilities. During 2005, the Canadian dollar continued to strengthen to US$0.86, and we recorded a foreign exchange gain of $0.4 million since there was a period at the closing of the Keith transaction when our US-dollar-denominated liabilities exceeded our US-dollar-denominated assets. Approximately $0.4 million of this gain was reflected in Q3 05.

**Income Taxes**

Our effective income tax rate for 2005 was at 35.0%, compared to 32.4% for 2004 and 36.7% for 2003. In our 2004 Management's Discussion and Analysis, we anticipated that our effective tax rate would be in the range of 33.0 to 35.0% depending on our estimated earnings in each of our taxing jurisdictions. We review our estimated income tax rate quarterly and adjust it based on changes in statutory rates in the jurisdictions in which we operate as well as on our estimated earnings in each of these jurisdictions. Throughout 2005, we maintained our estimated rate consistently at 35.0%. The rate of 32.4% for 2004 was favorably impacted by the additional income reflected in our regulated insurance subsidiary in Q4 04; a portion of that income was subject to tax at lower rates resulting in a 1.2% reduction of our consolidated tax rate.

**Quarterly Trends and Fourth Quarter Results**

The following is a summary of our quarterly operating results for the last two fiscal years:

**Quarterly Operating Results**

*(In millions of Canadian dollars, except per share amounts)*

| | 2005 | | | | 2004 | | | |
|---|---|---|---|---|---|---|---|---|
| | Dec 31 | Sep 30 | Jun 30 | Mar 31 | Dec 31 | Sep 30 | Jun 30 | Mar 31 |
| Gross revenue | 180.6 | 146.1 | 150.2 | 141.1 | 127.0 | 139.8 | 136.8 | 117.3 |
| Net revenue | 151.9 | 125.9 | 127.7 | 119.1 | 107.1 | 119.8 | 118.7 | 103.6 |
| Net income | 8.0 | 12.8 | 13.1 | 6.7 | 9.6 | 8.5 | 6.4 | 5.7 |
| EPS – basic | 0.36 | 0.66 | 0.69 | 0.36 | 0.52 | 0.46 | 0.35 | 0.31 |
| EPS – diluted | 0.35 | 0.64 | 0.67 | 0.35 | 0.50 | 0.44 | 0.33 | 0.30 |

*The quarterly earnings per share on a basic and diluted basis are not additive and may not equal the annual earnings per share reported. This is due to the effect of shares issued or repurchased during the year on the weighted average number of shares. Diluted earnings per share on a quarterly and annual basis are also affected by the change in the market price of our shares, since we do not include in dilution options whose exercise price is not in the money.*

The following items impact the comparability of our quarterly results:

| | Q4 05 vs. Q4 04 | Q3 05 vs. Q3 04 | Q2 05 vs. Q2 04 | Q1 05 vs. Q1 04 |
|---|---|---|---|---|
| | | *(In millions of Canadian dollars)* | | |
| Increase (decrease) in gross revenue due to: | | | | |
| Acquisitions completed in current and prior two years | 40.8 | 9.9 | 14.2 | 23.2 |
| Net internal growth | 14.4 | 0.8 | 4.3 | 3.3 |
| Impact of foreign exchange rates on revenue earned by foreign subsidiaries | (1.6) | (4.4) | (5.1) | (2.7) |
| Total increase in gross revenue | 53.6 | 6.3 | 13.4 | 23.8 |

During Q4 05, our gross revenue showed strong growth since it increased $53.6 million, or 42.2%, to $180.6 million from $127.0 million for the same period in 2004. Approximately $40.8 million of this increase resulted from acquisitions completed in 2003, 2004, and 2005 and net internal growth of $14.4 million, offset by $1.6 million resulting from the effect of the change in foreign exchange rates during those years.

Net income during Q4 05 decreased by $1.6 million, and earnings per share decreased $0.16 compared to the same period in 2004. The decrease in net income was partly due to the $1.0 million in additional professional liability claims expense recorded in Q4 05 based on an independent actuarial report completed in Q4 05. Net income was also affected by an increase of $1.8 million in the amortization of intangible assets over Q4 04 arising on the three acquisitions completed in 2005. The weighted average number of shares in the Company outstanding during Q4 05 was 22,307,604 and included the 3,328,776 shares issued as part of the Keith acquisition compared to the 18,532,085 shares outstanding during Q4 04. The combined impact of these items reduced our reported earnings per share by $0.16. In addition, costs were incurred during the integration of the acquired entities. In Q4 05 we integrated approximately 1,000 staff into our Company from the Keith and Keen acquisitions, who were then required to learn new practices and processes and understand new systems. Such a learning curve results in decreased productivity until the learning is complete. We estimate the impact of this decrease in productivity to be in the $2 to $3 million range for Q4 05.

In Q4 04 we reflected approximately $1.3 million in additional income as a result of a cumulative adjustment made to the professional liability claims reserve required in our regulated insurance subsidiary based on an independent actuarial report. As well, the reduction in the claims expense resulted in additional income in a low tax rate jurisdiction, the impact of which was reflected entirely in Q4 04. The impact of this adjustment on our Q4 04 income tax expenses was a decrease of $0.4 million. The combined impact of these items increased our reported earnings per share in that quarter by $0.09.

**Liquidity and Capital Resources**

The following table represents summarized working capital information as at December 31, 2005, compared to December 31, 2004:

| | Dec 31, 2005 | Dec 31, 2004 | % Change |
|---|---|---|---|
| | *(In millions of Canadian dollars, except ratios)* | | |
| Current assets | 280.4 | 208.8 | 34.3% |
| Current liabilities | (157.8) | (126.8) | 24.4% |
| Working capital | 122.6 | 82.0 | 49.5% |
| Current ratio | 1.78 | 1.65 | n/a |

*note: Working capital is calculated by subtracting current liabilities from current assets. The current ratio is calculated by dividing current assets by current liabilities.*

Our cash flows from operating, investing, and financing activities, as reflected in the Consolidated Statement of Cash Flows, are summarized in the following table:

| | 2005 | 2004 | 2003 | $ Change 2005 vs. 2004 | $ Change 2004 vs. 2003 |
|---|---|---|---|---|---|
| | *(In millions of Canadian dollars)* | | | | |
| Cash flows from operating activities | 57.3 | 77.4 | 16.9 | (20.1) | 60.5 |
| Cash flows used in investing activities | (114.6) | (10.2) | (33.5) | (104.4) | 23.3 |
| Cash flows from (used in) financing activities | 47.9 | (36.0) | (4.2) | 83.9 | (31.8) |

Our liquidity needs can be met through a variety of sources, including cash generated from operations, long- and short-term borrowings from our $160 million credit facility, and the issuance of common shares. Our primary use of funds is for operational expenses, acquisitions, and sustaining capital spending on property and equipment. We continue to generate cash flows from operations to assist with our acquisition growth. In addition, we continue to manage according to the established management guideline of maintaining a debt to equity ratio of less than 0.5 to1.

**Working Capital**

Our working capital at the end of 2005 was $122.6 million, compared to $82.0 million in 2004. Current assets increased by $71.6 million, and current liabilities increased by $31.0 million. The increase in current assets was partly due to an increase in restricted cash. A portion of the cash acquired as part of the Keith acquisition (US$26.1 million) is subject to restrictions outlined in the merger agreement to allow the transaction to qualify as a reorganization under US tax regulations. This cash cannot be used, directly or indirectly, to pay debt incurred with respect to financing the acquisition of Keith. Generally, the restricted cash will be used to finance future acquisitions as well as future capital expenditures. The restricted cash outstanding as at December 31, 2005, was $21.3 million (US$18.3 million). The addition of the non-cash working capital of CPV, Keith, and Keen also contributed to the increase in working capital in 2005.

**Cash Flows From Operating Activities**

Cash flows from operating activities were down by $20.1 million in 2005 from 2004 and up by $60.5 million from 2003 to 2004. The decrease in 2005 was reflective of a significant increase in operating cash flows in 2004 as explained below. The implementation of our new enterprise management system in the fourth quarter of 2003 contributed to the significant reduction in cash flows from operations for 2003. The reduction in our investment in costs and estimated earnings in excess of billings and in accounts receivable from 119 to 101 days of revenue during 2004 was the primary reason for the increased cash flow in 2004. In 2005 we maintained this improved level of investment at 101 days.

We provided allowances on our accounts receivable based on the probability of collection as well as the age of the receivable. We perform a review of collections subsequent to the period end in order to adjust our provisions for known collections for the accounts provided for. During the period 2003 through 2005, our provision for doubtful accounts as a percentage of accounts receivable has continued to fall as our collection procedures and billing cycles have become more refined and as the availability of historical collection and loss experience has been enhanced. We generally expect that costs and estimated earnings in excess of billings will be invoiced within a month to 90 days from the provision of services, and our

standard terms are that invoices are due upon receipt. The implementation of our new enterprise management system has provided us with additional tools and information that may translate into improved collections on older accounts receivable and reduce the level of allowance for doubtful accounts.

In addition to the above, the decrease in operating cash flows in 2005 was due to an increase of $17.8 million in net income taxes paid and a net increase of $4.7 million in cash receipts from clients less cash paid to suppliers and employees, offset by a reduction of $2.2 million in the amount of net interest expense paid in 2005. Income taxes payable at the end of 2003 were lower than normal due to our high level of investment in costs and estimated earnings in excess of billings at that time. This resulted in lower income tax payments in the first quarter of 2004 as well as lower income tax installment requirements for 2004. Our income tax payments increased in 2005 over 2004 to cover the higher income tax liability outstanding at the end of 2004 as well as the increased income tax installments required for 2005.

**Cash Flows From Investing Activities**

Cash flows used in investing activities increased by $104.4 million from 2004 to 2005 and decreased by $23.3 million from 2003 to 2004. In 2005 $100.4 million was used to finance the three acquisitions completed during the year versus $18.8 million used in 2004 and $6.0 million used in 2003. Our 2005 investment activities also included the use of $1.7 million for the expansion and improvement of our office in Winnipeg, Manitoba. In 2004 there was a cash inflow from the sale of our Edmonton office building as well as the sale of our interest in Goodfellow EFSOP(™) technology. This 2004 inflow was offset by an investment in short-term investments related to self-insured liabilities arising on the establishment of our regulated insurance company. In 2003 our cash flow used in investment activities was higher than in 2004 because it included the investment in our new enterprise management system and an investment in construction costs associated with an addition to our Edmonton office building.

As a professional services organization, we are not capital intensive. Our capital expenditures have historically been made primarily for property and equipment that includes such items as computer equipment and business information systems software, furniture, leasehold improvements, and other office and field equipment. As indicated above, the largest capital expenditures incurred from 2003 to 2004 related to the construction of an addition to our Edmonton office building, renovations to the original Edmonton office building, costs associated with the implementation of our new business information system, and leasehold improvements on new office space. We expect our capital expenditures in 2006 to be approximately $17.9 million relating to leasehold improvements for various office locations, primarily in Canada, as well as upgrades to a number of our desktop computers to support updated versions of certain application and operating system software. Other normal capital expenditures accounted for the use of approximately $9.2 million, $7.8 million, and $10.6 million in each of 2003, 2004, and 2005, respectively. Our capital expenditures in these years were financed by cash flows from operations as well as a mortgage obtained for the construction of the addition to our Edmonton office building.

**Cash Flows From Financing Activities**

Cash flows from financing activities increased by $83.9 million from 2004 to 2005 and decreased by $31.8 million from 2003 to 2004. In 2005 we replaced our credit facility by repaying $24.0 million outstanding on long-term debt and entering into a new three-year revolving credit facility. Our new credit facility provides for a line of credit of $160 million. During the third quarter, we accessed $95.9 million of the new credit facility for acquisition purposes and repaid $16.9 million in the fourth quarter, leaving $81.0 million available to access for future activities. This facility is available for acquisitions, working capital needs,

capital expenditures, and general corporate purposes. Depending on the form under which the credit facility is accessed and certain financial covenant calculations, rates of interest will vary between Canadian prime, US base rate, or LIBOR rate or bankers acceptances rates plus 65 or 85 basis points. The average interest rate on the amounts outstanding at December 31, 2005, was 4.34%. The new credit facility contains financial tests and other covenants with which we must comply at each quarter-end. In particular, we must satisfy the following specified ratios: 1) the senior debt to EBITDA ratio must not exceed 2.50 to 1.0 at any time and 2) the EBITDAR to debt service ratio must not be less than 1.25 to 1.0 at any time. EBITDA, EBITDAR, and EBITDAR to debt service ratio are defined in the Definition of Non-GAAP Measures in the Critical Accounting Estimates, Developments, and Measures section below. We were in compliance with these covenants as of December 31, 2005. During 2005, we also used $2.0 million for share issue costs related to the shares issued in conjunction with the acquisition of Keith. Options exercised for cash in 2005 generated cash of $1.0 million.

In 2004 funds received on the exercise of share options, as well as the net decrease in funds used to repurchase shares under our Normal Course Issuer Bid, were offset by the use of funds to pay down our bank indebtedness and long-term borrowings. This bank indebtedness had been incurred in 2003 and early 2004 to finance the level of investment in accounts receivable and in costs and estimated earnings in excess of billings that resulted from the implementation of our new enterprise management system. Improvement in the level of these investments, as well as proceeds received on the sale of our Edmonton office building, provided the additional funds to repay our long-term debt and bank indebtedness.

**Shareholders' Equity**

Our shareholders' equity increased $159.0 million to $348.1 million from $189.1 million at the end of 2004. This increase resulted from net income of $40.6 million, the issue of $123.4 million in shares and of $2.2 million in restricted shares in conjunction with the Keith acquisition, the issue of $1.0 million in shares on the exercise of options, and the recognition of the fair value of share-based compensation of $1.3 million, offset by share issue costs of $1.5 million, the repurchase of $0.2 million in shares pursuant to the Normal Course Issuer Bid, deferred stock compensation of $1.2 million recorded in conjunction with the Keith acquisition, and the $6.6 million change in our cumulative translation account arising on the translation of our US-based subsidiaries. The $6.6 million change was due to the continued strengthening of the Canadian dollar—from US$0.83 to US$0.86—in relation to the US dollar during the year.

Our shareholders' equity increased $28.6 million to $189.1 million from $160.5 million in 2003. This increase resulted from net income of $30.2 million in 2004, the recognition of the fair value of share-based compensation of $0.7 million, and the issue of $3.5 million in shares on the exercise of options, offset by the repurchase of $0.7 million in shares pursuant to the Normal Course Issuer Bid during the year and the $5.1 million change in our cumulative translation account arising on the translation of our US-based subsidiaries. The $5.1 million change was due to the strengthening of the Canadian dollar—from US$0.77 to US$0.83—in relation to the US dollar during the year.

Our Normal Course Issuer Bid on the TSX was renewed in 2005 and allows us to repurchase up to 946,705 shares. We continue to believe that, from time to time, the market price of our common shares does not fully reflect the value of our business or future business prospects and that, at such times, outstanding common shares are an attractive, appropriate, and desirable use of available Company funds. In 2005 we purchased 6,800 common shares at an average price of $28.68 per share for an aggregate price of $195,000. In 2004 we purchased 29,300 common shares at an average price of $24.57 per share for an aggregate price of $720,000.

## Other

### Outstanding Share Data

As at December 31, 2005, there were 22,313,131 common shares and 938,264 share options outstanding. During the period of December 31, 2005, to February 10, 2006, no shares were repurchased under our Normal Course Issuer Bid, 188,653 share options were exercised, and 8,164 common shares were issued upon the vesting of restricted shares issued on the Keith acquisition.

### Contractual Obligations

As part of our continuing operations, we enter into long-term contractual arrangements from time to time. The following table summarizes the contractual obligations due on our long-term debt, other liabilities, and operating lease commitments as of December 31, 2005:

| | Payments Due by Period | | | | |
|---|---|---|---|---|---|
| Contractual Obligations | Total | Less than 1 year | 2–3 years | 4–5 years | After 5 years |
| | | *(In millions of Canadian dollars)* | | | |
| Long-term debt | 86.7 | 4.8 | 81.8 | 0.0 | 0.1 |
| Interest on debt | 9.5 | 3.7 | 5.8 | 0.0 | 0.0 |
| Other liabilities | 30.8 | 6.0 | 8.0 | 7.1 | 9.7 |
| Operating lease commitments | 211.7 | 34.8 | 56.5 | 40.8 | 79.6 |
| Total contractual obligations | 338.7 | 49.3 | 152.1 | 47.9 | 89.4 |

For further information regarding the nature and repayment terms of our long-term debt, refer to the Cash Flows From Financing Activities section. Our operating lease commitments include obligations under office space rental agreements, and our other liabilities primarily include leasehold inducement benefits and provision for self-insurance.

### Off-Balance Sheet Arrangements

As of December 31, 2005, our only significant off-balance sheet financial arrangements related to letters of credit in the amount of $1.07 million that expire at various dates before November 2006. These letters of credit were issued in the normal course of operations, including the guarantee of certain office rental obligations.

### Market Risk

We are exposed to various market factors that can affect our performance primarily with respect to currency and interest rates.

**Currency.** Because a significant portion of our revenue and expenses is generated or incurred in US dollars, we face the challenge of dealing with fluctuations in exchange rates. To the extent that US-dollar revenues are greater than US-dollar expenses in a strengthening US-dollar environment, we expect to see a positive impact on our income from operations. Conversely, to the extent that US-dollar revenues are greater than US-dollar expenses in a weakening US-dollar environment, we expect to see a negative impact. This exchange rate risk primarily reflects, on an annual basis, the impact of fluctuating exchange rates on the net difference between total US-dollar professional revenue and US-dollar expenses. Other exchange rate risk arises from the revenue and expenses generated or incurred by subsidiaries located outside Canada and the United States. Our income from operations will be impacted by exchange rate

fluctuations used in translating these revenue and expenses. In addition, the impact of exchange rates on the balance sheet accounts of subsidiaries located outside Canada and the United States will affect our operating results. We also continue to be exposed to exchange rate risk for the US-dollar and other foreign currency-denominated balance sheet items carried by our Canadian, US, and international operations.

**Interest Rate.** Changes in interest rates also present a risk to our performance. Our credit facility carries a floating rate of interest. We estimate that, based on our balance at December 31, 2005, a 1% change in interest rates would impact our earnings per share by between $0.02 and $0.03.

### Related Party Transactions

We have not entered into any related party transactions as defined in Section 3830 of the Canadian Institute of Chartered Accountants (CICA) Handbook.

## OUTLOOK

The following table summarizes our expectations for the coming year:

| Measure | Expected Range |
|---|---|
| Debt to equity ratio *[note 1]* | At or below 0.5 to 1 |
| Return on equity *[note 2]* | At or above 14% |
| Net income as % of net revenue | At or above 5% |
| Gross margin as % of net revenue | Between 54 and 56% |
| Administrative and marketing expenses as % of net revenue | Between 40 and 42% |
| Effective income tax rate | Between 32 and 34% |

*note 1: Debt to equity ratio is calculated as the sum of (1) long-term debt, including current portion, plus bank indebtedness, less cash divided by (2) shareholders' equity.*
*note 2: Return on equity is calculated as net income for the year divided by average shareholders' equity over each of the last four quarters.*

As we move toward our goal of becoming a top 10 global design firm—and beyond—we recognize that the infrastructure and facilities market in North America is diverse and varies significantly from region to region. The market is also made up of many technical disciplines, clients, and industries and engages both the private and public sectors. Overall, we expect the outlook for professional services in this market to remain positive, with private and public sector spending on infrastructure increasing in 2006 and for the near term. We base this expectation on a variety of factors:

- The need for investment in upgrading public infrastructure in response to the condition of aging facilities and increased demands presented by the growth of North American cities
- The implementation of the new six-year, US$286.4 billion Safe, Accountable, Flexible, Efficient Transportation Equity: A Legacy for Users program in the United States, which promises increased funding for highway projects
- An increasing awareness of and focus on sustainable design and development

- The revitalization and reintroduction of residential and mixed-use projects in the downtown core of North American cities

- Strong commodity prices prompting the planning of pipeline, power plant, and other private infrastructure projects

- Growth in the cash reserves of private corporations, which will likely be reinvested, in part, in the construction of new facilities

- Anticipated strength, by historical standards, in the single-family housing sector in 2006 (despite a slight decrease in the housing market), fueled by continued affordability, high employment, positive economic conditions, and buoyant consumer confidence.

In addition, research suggests that the demand for design and construction services will continue to be strong for the next several years. For example, according to a report from the Brookings Institution (2004) entitled *Toward a New Metropolis: The Opportunity to Rebuild America*, only half of the "built space" that will be needed to accommodate a growing population and expanding economy in the United States over the next 25 years is currently in place. By 2030, a projected 60 million housing units will need to be built, along with nearly 100 billion square feet (9.29 billion square metres) of commercial and institutional space and close to 8.3 billion square feet (771 million square metres) of industrial space. The report forecasts that most of the expected growth will occur in the southern and western United States, two of our key target areas for geographic expansion.

In light of this market outlook, we plan to continue to grow our operations through a combination of internal hiring and acquisitions. We target to achieve long-term average annual compound growth rates of 15 to 20%, although we may not see growth in this range every year. We have chosen this target because we believe that it is an attainable goal that allows us to enhance the depth of our expertise, broaden our service provision, provide expanded opportunities for our employees, and lever our information technology systems. Our ability to continue to grow at this rate depends to a large extent on the availability of acquisition opportunities. Since our industry is made up of 100,000 mostly small firms, there are many acquisition candidates. At any one time we are engaged in discussions with up to 20 or more firms. Currently, the firms with which we are in some stage of discussion have between 10 and 1,000 employees.

We expect to support our targeted level of growth using a combination of cash flows from operations and additional financing while maintaining a return on our equity at or above 14% and a net income at or above 5% of net revenue. Although we believe that a normal debt to equity ratio at or below 0.5 to 1 is an appropriate target for our Company, opportunities to complete transactions may make it necessary for us to increase the amount of debt we carry beyond that limit. If the need to finance a larger acquisition arises, we will seek to raise cash by issuing additional shares.

Looking at the results of our current mix of project activity in the United States and Canada, we anticipate that our gross margin as a percentage of net revenue will remain in the range of 54 to 56% for 2006 and that our administrative expenses will remain in the range of 40 to 42% of net revenue. In addition, we expect our effective tax rate for 2006 to be between 32 and 34%.

With the 2005 acquisition of Keen, one of the leaders and advocates of the "green" building and design movement across North America, we also expect to increase our work in the area of sustainable development and to attract more clients who have sustainability as their focus.

## CRITICAL ACCOUNTING ESTIMATES, DEVELOPMENTS, AND MEASURES

### Critical Accounting Estimates

Our consolidated financial statements are prepared in accordance with Canadian GAAP, which require management to make various estimates and assumptions. The notes to our December 31, 2005, consolidated financial statements outline our significant accounting estimates. The accounting estimates discussed below are considered particularly important since they require the most difficult, subjective, or complex management judgments. However, because of the uncertainties inherent in making assumptions and estimates regarding unknown future outcomes, future events may result in significant differences between estimates and actual results. We believe that each of our assumptions and estimates is appropriate to the circumstances and represents the most likely future outcome.

Unless otherwise specified in our discussion of specific critical accounting estimates, we expect no material changes in overall financial performance or financial statement line items to arise either from reasonably likely changes in material assumptions underlying the estimate or within a valid range of estimates from which the recorded estimate was selected. In addition, management is not aware of trends, commitments, events, or uncertainties that it reasonably expects to materially affect the methodology or assumptions associated with its critical accounting estimates, subject to items identified in the Caution Regarding Forward-Looking Statements and Risk Factors sections of this Management's Discussion and Analysis.

**Revenue and Cost Recognition Estimates on Contracts.** Revenue from fixed fee and variable fee with ceiling contracts is recognized using the percentage of completion method based on the ratio of contract costs incurred to total estimated contract costs. We believe that costs incurred are the best available measure of progress toward completion of these contracts. Estimating total direct contract costs is subjective and requires the use of our best judgments based upon the information we have available at that point in time. Our estimate of total direct contract costs has a direct impact on the revenue we recognize. If our current estimates of total direct contract costs turn out to be higher or lower than our previous estimates, we would have over or underrecognized revenue for the previous period. We also provide for estimated losses on incomplete contracts in the period in which such losses are determined. Changes in our estimates are reflected in the period in which they are made and would affect our revenue and cost and estimated earnings in excess of billings.

**Goodwill.** Goodwill is assessed for impairment at least annually. This assessment includes a comparison of the carrying value of the reporting unit to the estimated fair value to ensure that the fair value is greater than the carrying value. We arrive at the estimated fair value of a reporting unit using valuation methods such as discounted cash flow analysis. These valuation methods employ a variety of assumptions, including revenue growth rates, expected operating income, discount rates, and earnings multiples. Estimating the fair value of a reporting unit is a subjective process and requires the use of our best estimates. If our estimates or assumptions change from those used in our current valuation, we may be required to recognize an impairment loss in future periods, which would decrease our goodwill asset and increase our reported expenses.

**Provision for Doubtful Accounts.** We use estimates in determining our allowance for doubtful accounts related to trade receivables. These estimates are based on our best assessment of the collectibility of the related receivable balance based, in part, on the age of the specific receivable balance. A provision is established when the likelihood of collecting the account has significantly diminished. Future collections of

receivables that differ from our current estimates would affect the results of our operations in future periods and our accounts receivable and reported revenue. In the second quarter of 2005, management revised its estimate of allowance for doubtful accounts. This revision was based on improved information available on our historical loss experience and has been applied prospectively. The impact of this change during the second quarter was a $4.0 million reduction in administrative and marketing expenses.

**Self-Insured Liabilities.** We self-insure certain risks, including professional liability and automobile liability. The accrual for self-insured liabilities includes estimates of the costs of reported claims and is based on estimates of loss using assumptions made by management, including consideration of actuarial projections. These estimates of loss are derived from loss history that is then subjected to actuarial techniques in the determination of the proposed liability. Estimates of loss may vary from those used by the actuarial projections and may result in a larger loss than estimated. Any increase in loss would be recognized in the period in which the loss is determined and would increase the self-insured liability and reported expenses.

**Income Taxes.** Our income tax assets and liabilities are based on interpretations of income tax legislation across various jurisdictions in Canada and the United States. Our effective tax rate can change from year to year based on the mix of income among different jurisdictions, changes in tax laws in these jurisdictions, and changes in the estimated value of future tax assets and liabilities recorded. Our income tax expense reflects an estimate of the cash taxes we expect to pay in the current year, as well as a provision for changes arising in the values of future tax assets and liabilities during the year. The tax value of these assets and liabilities is impacted by factors such as accounting estimates inherent in these balances, our expectation about future operating results, and possible audits of tax filings by regulatory authorities. Management assesses the likelihood of recovering value from future tax assets such as loss carryforwards on a regular basis, as well as the future tax depreciation of capital assets, and may establish a valuation reserve. If our estimates or assumptions change from those used in our current valuation, we may be required to recognize an adjustment in future periods that would increase or decrease our future income tax asset or liability and increase or decrease our income tax expense.

**Long-Lived Assets and Intangibles.** We review long-lived assets and intangible assets with finite lives on an annual basis or whenever events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable. Determination of recoverability is based on an estimate of undiscounted future cash flows, and measurement of an impairment loss is based on the fair value of the asset. To determine recoverability, we compare the estimated undiscounted future cash flows projected to be generated by these assets to their respective carrying value. In performing this analysis, management makes estimates or assumptions about factors such as current and future sales, margins, market conditions, and the useful life of an asset. If our estimates or assumptions change from those used in our current analysis, we may be required to recognize an impairment loss in future periods that would decrease our long-lived and intangible assets and increase our reported expenses.

**Liabilities for Lease Exit Activities.** We accrue charges when closing offices in existing operations or finalizing plans to downsize offices in locations assumed from an acquiree upon a business acquisition. Included in these liabilities is the present value of the remaining lease payments reduced by estimated sublease rentals that can reasonably be obtained. These provisions are based on management's estimates and reflect plans in place at the time the liability is recorded. If actual sublease payments and rental circumstances were to change from our original estimate, the liability would change, and we would be required to increase or decrease it and adjust goodwill or reported expenses depending on whether the adjustment related to a liability established pursuant to an acquisition.

**Business Combinations—Purchase Price Allocation.** In a business combination, we may acquire the assets and assume certain liabilities of an acquired entity. The allocation of the purchase price for these transactions involves judgment in determining the fair values assigned to the tangible and intangible assets acquired and the liabilities assumed on the acquisition. The determination of these fair values involves a variety of assumptions, revenue growth rates, expected operating income, discount rates, and earning multiples. If our estimates or assumptions change prior to finalizing the purchase price allocation for a transaction, a revision to the purchase price allocation or the carrying value of the related assets and liabilities acquired may impact our net income in future periods. We are currently in the process of finalizing the purchase price allocation for the CPV, Keith, and Keen acquisitions.

**Accounting Developments**

**Variable Interest Entities.** Effective January 1, 2005, we adopted the recommendations of Accounting Guideline 15 (AcG-15)—"Consolidation of Variable Interest Entities" (VIEs). VIEs are those entities that are subject to control on a basis other than ownership of voting interests. AcG-15 provides guidance for identifying VIEs as well as criteria for determining consolidation. Our consolidated financial statements include the accounts of our Company, its subsidiary companies, and all VIEs. The Company is the primary beneficiary for all VIEs. Our initial adoption of this accounting guideline on a prospective basis did not have an impact on our consolidated financial statements.

**GAAP Hierarchy.** Effective January 1, 2004, we adopted the recommendations of Section 1100 of the CICA Handbook, "Generally Accepted Accounting Principles." This section establishes standards for financial reporting in accordance with GAAP. It describes what constitutes GAAP and its sources and states that an entity should apply every primary source of GAAP that deals with the accounting and reporting in financial statements of transactions or events it encounters. Our initial adoption of these recommendations on a prospective basis did not have an impact on our consolidated financial statements.

**Financial Instruments—Recognition and Measurement.** In January 2005, the CICA released the new handbook Section 3855, "Financial Instruments—Recognition and Measurement," effective for annual and interim periods beginning on or after October 1, 2006. This pronouncement further aligned Canadian GAAP with US GAAP. The section provides standards for the classification of financial instruments and related interest, dividends, gains, and losses. It prescribes when a financial instrument should be stated at fair value and when it would be valued using cost-based measures. Financial instruments are defined to include accounts receivable and payable, loans, investments in debt and equity securities, and derivative contracts. Upon initial adoption of these recommendations in fiscal 2007, our investments held for self-insured liabilities will be reflected as investments held for sale, and the resulting unrealized gains or losses will be reflected through other comprehensive income until realized, at which time the gains or losses will be recognized in net income. This new standard is not expected to have a material effect on the results of our operations.

**Comprehensive Income and Equity.** In January 2005, the CICA released the new handbook Section 1530, "Comprehensive Income," and Section 3251, "Equity," effective for annual and interim periods beginning on or after October 1, 2006. These pronouncements further aligned Canadian GAAP with US GAAP. Section 1530 establishes standards for the reporting and display of comprehensive income. Comprehensive income is defined to include revenues, expenses, gains, and losses that, in accordance with primary sources of GAAP, are recognized in comprehensive income but excluded from net income. Section 1530 does not address issues of recognition or measurement for comprehensive income and its components. Section 3251, "Equity," establishes standards for the presentation of equity and changes in equity during the reporting period. The requirements set out in Section 3251 are in addition to those

established in Section 1530 and require that an enterprise present separately the components of equity: retained earnings, accumulated other comprehensive income, the total for retained earnings and accumulated other comprehensive income, contributed surplus, share capital, and reserves. Upon initial adoption of these recommendations in fiscal 2007, unrealized losses on the translation of our self-sustaining foreign operations will be included in comprehensive income. Currently, these unrealized losses are reflected in our cumulative translation account.

**Materiality**

Management determines whether or not information is "material" based on whether it believes a reasonable investor's decision to buy, sell, or hold securities in our Company would likely be influenced or changed if the information were omitted or misstated.

**Definition of Non-GAAP Measures**

This Management's Discussion and Analysis includes references to and uses terms that are not specifically defined in the CICA Handbook and do not have any standardized meaning prescribed by Canadian GAAP. These non-GAAP measures may not be comparable to similar measures presented by other companies. Management believes these are useful measures for providing investors with additional information to assist them in understanding components of our financial results.

**Gross Revenue and Net Revenue.** Our Company provides knowledge-based solutions for infrastructure and facilities projects through value-added professional services principally under fee-for-service agreements with clients. In the course of providing services, we incur certain direct costs for subconsultants, equipment, and other expenditures that are recoverable directly from our clients. The revenue associated with these direct costs is included in our gross revenue. Since such direct costs and their associated revenue can vary significantly from contract to contract, changes in our gross revenue may not be indicative of our revenue trends. Accordingly, we also report net revenue, which is gross revenue less subconsultant and other direct expenses, and analyze our results in relation to net revenue rather than gross revenue.

**Gross Margin.** We monitor our gross margin percentage levels to ensure that they are within an established acceptable range for the profitability of our operations and Company. Gross margin is calculated as the difference of net revenue minus direct payroll costs. Direct payroll costs include the cost of salaries and related fringe benefits for labor hours that are directly associated with the completion of projects. Labor costs and related fringe benefits for labor hours that are not directly associated with the completion of projects are included in administrative and marketing expenses.

**Debt to Equity Ratio.** As part of our overall assessment of our Company's financial condition, we monitor our debt to equity ratio to ensure that it is maintained within our established range. Debt to equity ratio is calculated as long-term debt plus the current portion of long-term debt plus bank indebtedness less cash, all divided by shareholders' equity.

**Return on Equity Ratio.** As part of our overall assessment of value added to shareholders, we monitor our return on equity ratio. Return on equity is calculated as net income for the year divided by the average shareholders' equity over each of the last four quarters.

**Working Capital.** This measure assists us in assessing the overall liquidity of our Company. Working capital is calculated by subtracting current liabilities from current assets.

**Current Ratio.** This measure assists us in assessing the overall liquidity of our Company. Current ratio is calculated by dividing current assets by current liabilities.

**EBITDA.** EBITDA represents earnings before income taxes depreciation and amortization. This measure is referenced in our credit facility as part of our debt covenants. It is defined in the credit facility for any period as net income for such period plus all amounts deducted in the calculation thereof on account of interest expense, income taxes, depreciation, amortization, and any minority interest.

**EBITDAR.** This measure is referenced in our credit facility as part of our debt covenants. It is defined in the credit facility as an amount equal to EBITDA plus, calculated on a rolling four quarter basis, building rental obligations net of common area costs, taxes, charges, and levies.

**EBITDAR to Debt Service Ratio.** This ratio is referenced in our credit facility agreement as part of our debt covenants. It is defined in the credit facility as EBITDAR divided by, on a rolling four fiscal quarter basis, permanent principal and interest payments in respect of the debt plus building rental obligations net of common area costs, taxes, charges, and levies.

## RISK FACTORS

The following factors, among others, could cause our actual results to differ materially from those projected in our forward-looking statements:

- Global capital market activities
- Fluctuations in interest rates and currency values
- The effects of war or terrorist activities
- The effects of disease or illness on local, national, or international economies
- The effects of disruptions to public infrastructure, such as transportation or communications
- Disruptions in power or water supply
- Industry and worldwide economic and political conditions
- Regulatory and statutory developments
- The effects of competition in the geographic and business areas in which we operate
- The actions of management
- Technological changes.

Investors and the public should carefully consider these factors, other uncertainties, and potential events as well as the inherent uncertainty of forward-looking statements when relying on these statements to make decisions with respect to Stantec. We do not undertake to update any forward-looking statement, whether

written or verbal, that may be made from time to time by the organization or on its behalf. Additional operating, market, and growth and acquisition integration risks are outlined below.

**Operating Risks**

Like all professional services firms in the infrastructure and facilities industry, we are exposed to a number of risks in carrying out the day-to-day activities of our operations. These risks include the following.

***If we are unable to engage qualified subconsultants, we may lose projects, revenue, and clients.***

We often contract with outside companies to perform designated portions of the services we provide to our clients. In 2005 subconsultant costs accounted for approximately 9.6% (2004, 8.6%) of our gross revenue. If we are unable to engage qualified subconsultants, our ability to perform under some of our contracts may be impeded and the quality of our service may decline. As a consequence, we may lose projects, revenue, and clients.

***We may have difficulty in attracting and retaining qualified staff, which may affect our reputation in the marketplace and restrict our ability to implement our business strategy.***

We derive our revenue almost exclusively from services performed by our employees. Consequently, one of the key drivers of our business is our ability to attract and retain qualified staff. However, we may not be able to attract and retain the desired number of qualified staff over the short or long term. There is significant competition for staff with the skills necessary for providing our services from major and boutique consulting, engineering, public agency, research, and other professional services firms. Our inability to attract and retain qualified staff could impede our ability to secure and complete engagements, in which event we may lose market share and our revenue and profits could decline. In addition, if our employees were to leave our Company and become competitors of ours, we could lose other employees and some of our existing clients who have formed relationships with such former employees. We could also lose future clients to a former employee as a new competitor. In either event, we could lose clients and revenue, and our profitability could decline.

***Adverse weather conditions and natural or other disasters may cause a delay or eliminate net revenue which otherwise would have been realized and thus adversely affect our profitability.***

Our field activities are generally performed outdoors and may include surveying, archeology, plant start-up and testing, and plant operations. Certain weather conditions or natural and other disasters, such as fire, floods, and similar events, may cause postponements in the initiation and/or completion of our field activities and may hinder the ability of our office employees to arrive at work, which may result in a delay or elimination of revenue that otherwise would have been recognized while certain costs continued to be incurred. Adverse weather conditions or disasters may also delay or eliminate our initiation and/or completion of the various phases of work relating to other engineering services that commence concurrent with or subsequent to our field activities. Any delay in the completion of our field, office, and/or other activities may require us to incur additional costs attributable to overtime work necessary to meet our client's required schedule. Due to various factors, a delay in the commencement or completion of a project may also result in the cancellation of the contract. As a result, our net revenue and profitability may be adversely affected.

***Our backlog is subject to unexpected adjustments and cancellations and is, therefore, an uncertain indicator of our future earnings.***

As of December 31, 2005, our backlog was approximately $588 million. However, the revenue projected in our backlog may not be realized or, if realized, may not result in profits. Projects may remain in our backlog for an extended period of time. In addition, project cancellations or scope adjustments may occur from time to time with respect to contracts reflected in our backlog. Backlog reductions can adversely affect the revenue and profit we actually receive from contracts reflected in our backlog. Future project cancellations and scope adjustments could further reduce the dollar amount of our backlog and the revenue and profits that we actually receive. Finally, poor project or contract performance could also impact our profits.

***We bear the risk of cost overruns in a significant number of our contracts. We may experience reduced profits or, in some cases, losses under these contracts if costs increase above our estimates.***

We conduct our business under various types of contractual arrangements, most of which are fee-for-service agreements. However, approximately 73% of the dollar value of our contracts in 2005 was based on a fixed-fee or time-and-materials contract with a ceiling on the maximum costs to the client. Under fixed-fee contracts, we perform services at a stipulated price. Under time-and-materials contracts with not-to-exceed provisions, we are reimbursed for the number of labor hours expended at an established hourly rate plus the cost of materials incurred subject, however, to a stated maximum dollar amount for the services to be provided. In both of these types of contracts, we agree to provide our services based on our estimate of the costs a particular project will involve. These estimates are established in part on cost and scheduling projections, which may prove to be inaccurate, or circumstances may arise such as unanticipated technical problems, weaknesses in project management, difficulties in obtaining permits or approvals, changes in local laws, or delays beyond our ability to control. The underestimation of costs for these types of contracts may cause us to incur losses or result in a project not being as profitable as we expect. In addition, projects that are not completed on schedule further reduce profitability because staff must continue to work on the project longer than anticipated, which may prevent them from pursuing and working on new projects. Projects that are over budget or not on schedule may also lead to client dissatisfaction.

***One of our primary competitive advantages is our reputation and experience. If our reputation is damaged due to client dissatisfaction, our ability to win additional business may be materially damaged.***

Although we serve many diverse clients and are not dependent on any one client or group of clients to sustain our business, our reputation for delivering effective and efficient solutions for complex projects is one of our most valuable business development assets. The loss of this reputation due to client dissatisfaction represents a significant risk to our ability to win additional business both from existing clients and from those with whom we may have dealings in the future.

***The nature of our business exposes us to potential liability claims and contract disputes, which may reduce our profits.***

Our operations are subject to the risk of third-party claims in the normal course of our business, some of which may be substantial. We have been and may in the future be named as a defendant in legal proceedings where parties may make a claim for damages or other remedies with respect to our projects or other matters. Any litigation resulting from our business operations could distract management attention from normal business operations, divert financial resources to the defense of such claims, or result in significant attorney fees and damage awards for which we may not be fully insured and which could harm our reputation. Any of these circumstances could adversely affect our profitability.

***Our insurance may not cover all claims for which we may be liable, and expenses related to insurance coverage may adversely impact our profitability.***

Although we believe that we have made adequate arrangements for insuring against potential liability claims, these arrangements may be insufficient to cover any particular risk. When it is determined that we have liability, we may not be covered by insurance or, if covered, the dollar amount of these liabilities may exceed our policy limits. Our professional liability coverage is on a "claims-made" basis, covering only claims actually made during the policy period currently in effect. In addition, even where insurance is maintained for such exposures, the policies have deductibles resulting in our assuming exposure for a layer of coverage with respect to any such claims. Any liability not covered by our insurance, in excess of our insurance limits, or covered by insurance but subject to a high deductible could result in a significant loss for us, which may reduce our profits and cash available for operations. Moreover, we may become subject to liability that cannot be insured against or against which we may choose not to insure because of high premium costs or for other reasons. Our expansion into new services or geographic areas could result in our failure to obtain coverage for these services or areas, or the coverage being offered may be at a higher cost than our current coverage. Due to the current insurance environment, we have experienced and may continue to experience an increase in our insurance premiums. We may not be able to pass these increases on to our clients in increased billing rates.

We maintain insurance coverage for our operations, including policies covering general liability, automobile liability, environmental liability, workers' compensation and employers' liability, directors' and officers' liability, and professional liability. In September 2003 we established a regulated captive insurance company to insure and fund the payment of any professional liability self-insured retentions related to claims arising after August 1, 2003. We, or our clients, also obtain project-specific insurance for designated projects from time to time. We also invest resources in a Risk Management team that is dedicated to providing Company-wide support and guidance on risk avoidance practices and procedures. One of our practices is to carry out select client evaluations, including credit risk appraisals, before entering into contract agreements to reduce the risk of non-payment for our services.

***We may not be able to adequately protect our intellectual property, which could force us to take costly protective measures such as litigation.***

To establish and protect our intellectual property rights, we rely on a combination of trademark and trade secret laws, along with licenses, exclusivity agreements, and other contractual covenants. However, the measures we take to protect our intellectual property rights may prove inadequate to prevent the misappropriation of our intellectual property. Litigation may be necessary to enforce our intellectual property rights or to determine the validity and scope of the proprietary rights of others. Litigation of this type could result in substantial costs and the diversion of resources, may result in counterclaims or other claims against us, and could significantly harm the results of our operations.

***If we experience delays and/or defaults in customer payments, we could suffer liquidity problems or be unable to recover our expenditures.***

Because of the nature of our contracts, at times we commit resources to projects prior to receiving payments from the customer in amounts sufficient to cover expenditures as they are incurred. Delays in customer payments may require us to make a working capital investment. If a customer defaults in making payments on a project to which we have devoted significant resources, it could have a material negative effect on our liquidity as well as the results of our operations. In addition, clients who withhold payment are more likely to bring claims against us and have a higher tendency toward dissatisfaction with the services we provide.

**Market Risks**

We are also exposed to various market factors that can affect our performance. These risks include the following.

***The professional consulting services industry is highly competitive, which could have a negative impact on our profit margins and market share.***

The markets we serve are highly competitive, and we have numerous competitors for the services we offer. The principal competitive factors include reputation, experience, breadth and quality of services, technical proficiency, local offices, competitive total project fees, and service delivery. The number and identity of competitors vary widely with the type of service we provide. For small- to medium-sized projects, we compete with many engineering, architecture, and other professional consulting firms. For larger projects, there are fewer but still many competitors, and many of these competitors have greater financial and other resources than we do. Although we compete with other large private and public companies in certain geographic locations, our primary competitors are smaller, privately held regional firms in the United States and Canada. Generally, competition places downward pressure on our contract prices and profit margins. However, such impact is difficult to quantify. Intense competition is expected to continue in these markets, presenting significant challenges to our ability to maintain strong growth rates and acceptable profit margins. If we are unable to meet these competitive challenges, we could lose market share to our competitors and experience an overall reduction in our profits. We may not be able to compete successfully with such competitors, and such competition could cause us to lose customers, increase expenditures, or reduce pricing, any of which could have a material adverse effect on our earnings and stock price.

***Economic downturns could have a negative impact on our businesses since our clients may curtail investment in infrastructure projects.***

Demand for the services we offer has been, and is expected to continue to be, subject to significant fluctuations due to a variety of factors beyond our control, including economic conditions. During economic downturns, the ability of both private and governmental entities to make expenditures may decline significantly, which would have a material adverse effect on our revenue and profitability. We cannot be certain that economic or political conditions will generally be favorable or that there will not be significant fluctuations that adversely affect our industry as a whole or the key markets we target.

***A significant portion of our revenue is derived from clients in the real estate industry. Consequently, our business could suffer materially if there were a downturn in the real estate market.***

On a pro forma basis, after giving effect to the Keith merger as if it had occurred on January 1, 2005, we estimate that approximately 39% of our 2005 gross revenue would have been derived from services related to residential and commercial real estate development projects. Consequently, reduced demand in the real estate market would likely have an adverse impact on our Urban Land group. The real estate market, and, therefore, our business, may be impacted by a number of factors, which may include the following:

- Changes in employment levels and other general economic conditions
- Changes in interest rates and in the availability, cost, and terms of financing
- The impact of present or future environmental, zoning, or other laws and regulations
- Changes in real estate tax rates and assessments and other operating expenses

- Changes in levels of government infrastructure spending and fiscal policies

- Natural or human-made disasters and other factors that are beyond our control.

A significant decrease in the demand for our real estate-related services could have a material adverse effect on our overall business, including the results of our operations and liquidity.

***We derive significant revenue from contracts with government agencies. Any disruption in government funding or in our relationship with those agencies could adversely affect our business.***

The demand for our services is related to the level of government funding that is allocated for rebuilding, improving, and expanding infrastructure systems. We derive a significant amount of our revenue from government or government-funded projects and expect to continue to do so in the future. Between 40 and 55% of our gross revenue during the years ended December 31, 2002, through December 31, 2005, was derived from government or government-funded projects. Significant changes in the level of government funding could have an unfavorable impact on our business, financial position, results of operations, and cash flows.

We believe that the success and further development of our business depend, in part, on the continued funding of these government programs and on our ability to participate in these programs. However, governments may not have available resources to fund these programs or may not fund these programs even if they have available financial resources. Some of these government contracts are subject to renewal or extensions annually, so we cannot be assured of our continued work under these contracts in the future. In addition, government agencies can terminate these contracts at their convenience. As a result, we may incur costs in connection with the termination of these contracts and suffer a loss of business. As well, contracts with government agencies are sometimes subject to substantial regulation and audit of the actual costs incurred. Consequently, there may be a downward adjustment to our revenue if accrued recoverable costs exceed actual recoverable costs.

***Our share price has historically been subject to volatility. As a result, the price of our common shares may decrease in the future due to a number of Company- and industry-specific or general economic factors.***

Our share price has experienced volatility in the past and will likely be volatile in the future. For example, the high and low closing sales prices on the TSX for our common shares during the 52 weeks ended December 31, 2005, were $40.39 and $24.50, respectively. The price of our common shares may fluctuate substantially in the future due to, among other things, the following factors: (1) the failure of our quarterly or annual operating results to meet expectations; (2) the reaction of markets and securities analysts to announcements and developments involving our Company; (3) adverse developments in the worldwide, Canadian, or US economy, the financial markets, or the engineering and consulting services market; (3) changes in interest rates; (4) announcements by key competitors; (5) additions or departures of key staff; (6) announcements of legal proceedings or regulatory matters; and (7) general volatility in the stock market.

In addition, the stock market has experienced volatility that has affected the market prices of the equity securities of many companies and that has often been unrelated to the operating performance of such companies. A number of other factors, many of which are beyond our control, could also cause the market price of our common shares to fluctuate substantially.

***Our share price could be adversely affected if a large number of our common shares are offered for sale or sold.***

There may be instances in which we negotiate an acquisition where the consideration for the purchase may include Stantec shares. In the event that the acquired entity shareholders subsequently decide to dispose of Stantec shares following the acquisition, there could be a large supply of our common shares on the market. If the supply of our common shares is significantly greater than the associated demand, the market price of our common shares may significantly decline and may not recover.

***If we need to sell or issue additional common shares and/or incur additional debt to finance future acquisitions, our share ownership could be diluted and the results of our operations could be adversely affected.***

Our business strategy is to expand into new markets and enhance our position in existing markets through the acquisition of complementary businesses. In order to successfully complete targeted acquisitions or to fund our other activities, we may issue additional equity securities that could dilute share ownership. We may also incur additional debt if we acquire another company, and this could increase our debt repayment obligations, which could have a negative impact on our future liquidity and profitability.

As mentioned previously, we currently have a $160 million credit facility. However, we have no assurance that debt financing will continue to be available from our current lenders or other financial institutions on similar terms.

***Because we report our results in Canadian dollars and a substantial portion of our revenue and expenses is recorded in US dollars, our results are subject to currency exchange risk.***

Although we report our financial results in Canadian dollars, a substantial portion of our revenue and expenses is generated or incurred in US dollars. For the purposes of financial reporting under Canadian GAAP measures, revenue and expenses denominated in foreign currencies are translated into Canadian dollars at the average exchange rates prevailing during the year. We expect to continue to report our financial results in Canadian dollars in accordance with Canadian GAAP measures. Therefore, if the Canadian dollar were to strengthen relative to the US dollar and other currencies, the amount of net income from our non-Canadian-dollar-denominated business could decrease, which could have a material adverse effect on our business, financial condition, and results of operations.

The value of the Canadian dollar relative to the US dollar is subject to volatility. For example, the average exchange rates for the years ended December 31, 2005, December 31, 2004, December 31, 2003, and December 31, 2002, for C$1.00 were US$0.86, US$0.83, US$0.77, and US$0.72, respectively. Furthermore, this volatility may continue in the future, and, as discussed above, increases in the strength of the Canadian dollar relative to the US dollar may have a negative impact on the results of our operations.

From time to time we enter into forward contracts to manage risk associated with net operating assets outside our US operations denominated in US dollars (other than with respect to net operating assets that are owned by US subsidiaries). These derivative contracts, which are not accounted for as hedges, are marked to market, and any changes in the market value are recorded in income or expense when the changes occur. As a result, we may not benefit from any weakening of the Canadian dollar relative to the US dollar.

**Growth and Acquisition Integration Risks**

We are also exposed to factors arising from growth and acquisition activities that can affect our performance. These risks include the following.

***If we are unable to manage our growth effectively, we may experience a decline in our revenue and profitability.***

We have grown rapidly in the recent past, and we intend to pursue further growth through acquisitions and otherwise as part of our business strategy. However, there is a risk that we may not be able to manage our growth effectively and efficiently. Our inability to manage our growth could cause us to incur unforeseen costs, time delays, or other negative impacts, any of which could cause a decline in our revenue and profitability. Our rapid growth has presented, and will continue to present, numerous administrative and operational challenges, including the management of an expanding array of engineering and consulting services, the assimilation of financial reporting systems, increased pressure on our senior management, and increased demand on our systems and internal controls. Furthermore, as we expand our service offerings and geographic presence, we may not be able to maintain the current quality of our services.

We also may encounter difficulties in integrating acquisitions that we do make. Acquired businesses may not be profitable, because we may not be successful in generating the same level of operating performance that an acquired company experienced prior to its acquisition. As well, we may not be able to maintain our reputation in an acquired company's geographic area or service offerings, which may negatively impact our ability to attract and retain clients in those or other areas. Any of these integration issues could divert management's attention from other business activities and impact our ability to grow our business effectively.

***From time to time we have pursued and may continue to pursue and invest in business opportunities that are not directly within our core competencies. These new business opportunities may require a disproportionate amount of management's time to develop profitably and may not perform as expected.***

Acquisitions may bring us into businesses that we have not previously conducted and expose us to additional business risks that are different than those we have traditionally experienced. Consequently, we may depend in part on the knowledge and expertise of the professional service providers and management teams that we acquire in order to make these business opportunities profitable. New business opportunities frequently bring a learning curve that may require substantial management time, which may create a distraction from our day-to-day business operations. If these business opportunities do not perform as anticipated or are not profitable, our earnings during periods of greater learning may be materially adversely affected, and we may experience a partial or complete loss of our investment.

***We may be unsuccessful in our goal to increase the size and profitability of our operations, which could lead to a reduction in our market share and our competitiveness as our industry consolidates.***

We may not be able to locate suitable acquisitions or to consummate any such transactions on terms and conditions that are acceptable to us. As the professional services industry consolidates, suitable acquisition candidates are expected to become more difficult to locate and may only be available at prices or under terms that are less favorable than in the past. In addition, some of our competitors are much larger than us, have greater financial resources, and can better afford to pay a premium for potential acquisition candidates. If we are unable to effectively compete for or to locate suitable acquisitions, our business will not grow in the manner we expect, and we will have difficulty achieving our growth plan.

To help reduce our susceptibility to industry-specific and regional economic cycles and to take advantage of economies of scale in the highly fragmented professional services industry, we intend to continue to diversify our business both in terms of geographic presence and service offerings. Since the beginning of 2002, we have completed 21 acquisitions, and we expect to continue to pursue selective acquisitions of businesses that will enable us to enhance our market penetration and increase and diversify our revenue base.

***Stantec and an acquired entity may experience difficulties in integrating the acquired entity's business with the existing operations of Stantec and so may not realize the anticipated benefits of the acquisition.***

Our rationale for acquiring a firm is, in part, predicated on our ability to leverage the combined strengths of the two companies to increase our opportunities and grow our revenue. Integrating an acquired firm's operations and staff into our own is a complex endeavor, and we may not be able to complete the process rapidly or without encountering difficulties. Successful integration requires, among other things, the assimilation of the firm's professional services, sales and marketing operations, and information and software systems as well as the coordination of employee retention and hiring and training operations. The diversion of management's attention to the integration effort and any difficulties encountered in combining operations could adversely affect the combined company's businesses and prevent it from realizing the anticipated improvement in professional service offerings, market penetration, and geographic presence that forms the foundation for the acquisition.

***Uncertainties associated with the merger or Stantec as a new owner may cause an acquired entity to lose customers.***

An acquired company's customers may, in response to the announcement of the acquisition, delay or defer decisions concerning their use of the company's services because of uncertainties related to the consummation of the acquisition, including the possibility that the acquisition may not be completed if all the conditions of the transaction are not fulfilled. This circumstance could have an adverse effect on our revenue and profitability.

***Uncertainties associated with the merger may cause a loss of employees.***

The ability to attract and retain trained professionals is one of the key drivers of our business and results. Therefore, the success of an acquisition depends in part on our ability to retain key employees of the acquired firm. Competition for qualified staff can be very intense. In addition, key employees may depart because of issues relating to the uncertainty and difficulty of the completion of the acquisition, the integration, or a desire not to remain with the combined company. Accordingly, we may be unable to retain key employees to the same extent that we were able to do so in the past.

***Goodwill and other intangible assets acquired as a result of our acquisitions represent substantial portions of our total assets. If our acquired businesses do not perform as expected, we may be required to write down the value of our goodwill and other intangible assets, which could have a material adverse effect on our earnings.***

Goodwill and other intangible assets represent approximately 43.0% of our total assets. When we acquire a consulting business, a significant portion of the purchase price for the acquisition is generally allocated to goodwill and other identifiable intangible assets. The amount of the purchase price allocated to goodwill is determined by the excess of the purchase price paid by us to acquire the consulting business over the fair value of the net identifiable assets acquired. Canadian and US accounting rules require us to perform an annual impairment test of our goodwill and indefinite life intangible assets. A deterioration in the operating

results of such acquired businesses or the failure of these businesses to meet our expectations may adversely affect the carrying value of our goodwill and other indefinite life intangible assets and could result in an impairment of the goodwill associated with such businesses. As part of our annual review of goodwill for impairment, we consider our actual performance for each of our reporting units compared to our expectations and update our future expectations for such reporting units. An impairment of goodwill would be recorded as a charge in our income statement, which could have a material effect on our earnings.

### Managing Our Risks

We mitigate our operating, market, and growth and acquisition integration risks through our business strategy and other measures. As mentioned previously, our three-dimensional business model based on geographic, practice area, and life cycle diversification reduces our dependency on any particular industry or economic sector for our income. We also differentiate our Company from competitors by entering into a diverse range of contracts with a variety of fee amounts. Currently, the majority of assignments we pursue are small to midsize projects with a capital value of less than $100 million offering potential project fees for Stantec of less than $10 million. These types of projects represent the largest share of the infrastructure and facilities market. Focusing on this project mix continues to ensure that we do not rely on a few large, single projects for our revenue and that no single client or project accounts for more than 5% of our overall business.

To address the risk of competition for qualified personnel, we offer a number of employment incentives, including training programs, access to a plan that provides the benefit of employee share ownership (for Canadian employees), and opportunities for professional development and enhancement, along with compensation plans that we believe to be competitive, flexible, and designed to reward top performance. In 2004 we completed an extensive review of our benefits programs for our Canadian and US employees with the objectives of providing more personal choice in coverage and emphasizing wellness and preventative care. Our new plans were implemented in the first quarter of 2005.

In 2004 we also created a Practice Enhancement team to champion continuous improvement in project management and the sharing of best practices across our Company, along with promoting the enhanced reliability and consistency of the services we provide to clients. In addition, we expanded our Company-wide project manager training program in 2004. This program is aimed at skill development in risk mitigation, project planning, quality control and assurance, and financial administration, among other project management responsibilities. In 2005 we implemented project manager and leadership portal dashboard training programs designed to enhance the visibility of financially related information to assist our operations leadership in improving performance and decision making. We recognize that through improved project management across our operations we will increase our ability to deliver projects on schedule and within budget.

## CORPORATE GOVERNANCE

### Disclosure and Control Procedures

Based on an evaluation of Stantec's disclosure controls and procedures, our CEO and Chief Financial Officer have concluded that these controls and procedures operated effectively as of December 31, 2005.

### Disclosure Committee

In 2005 Stantec established a Disclosure Committee consisting of a cross section of its management. The committee's mandate is to provide ongoing review of Stantec's continuous disclosure policy to ensure that

it addresses the Company's principal business risks and changes in operations or structure. In addition, the committee facilitates compliance with applicable legislative and regulatory reporting requirements.

**Board of Directors**

Stantec's board of directors presently includes eight members, six of whom are independent under Canadian securities laws and under the rules of the SEC at the NYSE and free from any interest or relationship that could materially interfere with their ability to act in the best interest of the Company or its shareholders.

The board's mandate is to supervise Stantec's management with a view to the Company's best interests. The board fulfils its mandate by

- Overseeing the Company's strategic planning process
- Satisfying itself as to the integrity of the CEO and other executive officers
- Ensuring that the Company has a policy in place for communicating effectively with shareholders, other stakeholders, and the public
- Reviewing and monitoring the Company's principal business risks as identified by management, along with the systems for managing such risks
- Overseeing senior management succession planning, including the appointment, development, and monitoring of senior management
- Ensuring that management maintains the integrity of the Company's internal controls and management information systems.

In 2005 Stantec's board included two committees—the Audit Committee and the Corporate Governance and Compensation Committee. Both committees are composed entirely of independent directors.

**Audit Committee**

The Audit Committee monitors, evaluates, approves, and makes recommendations on matters affecting Stantec's external audit, financial reporting, and accounting control policies. The committee met six times in 2005. The chairman of the committee provides regular reports at the Company's board meetings. The board has determined that each of the Audit Committee's members is financially literate and that the chairman of the Audit Committee, William D. Grace, is a "financial expert" as such term is defined under the rules of the SEC and of the NYSE.

**Corporate Governance and Compensation Committee**

The Corporate Governance and Compensation Committee monitors, evaluates, approves, and makes recommendations on matters affecting governance and compensation. Governance matters include, but are not limited to, board size, nominations, orientation, education, and self-evaluation. Compensation matters include, but are not limited to, executive management compensation, performance review, and succession plans. The Corporate Governance and Compensation Committee met three times in 2005. The chairman of the committee provides regular reports at the Company's board meetings.

More information about our corporate governance can be found on our web site (www.stantec.com) and in the Management Information Circular for our May 4, 2006, annual and special meeting of shareholders. In addition, the following documents are posted on our web site:

- Code of Ethics
- Corporate Governance Guidelines
- Audit Committee Terms of Reference
- Corporate Governance and Compensation Committee Terms of Reference.

The above information is not incorporated by reference herein. Copies of these documents will be made available in print form to any shareholder who requests them.

# Management Report

The annual report, including the consolidated financial statements, is the responsibility of the management of the Company. The consolidated financial statements were prepared by management in accordance with Canadian generally accepted accounting principles. Where alternative accounting methods exist, management has chosen those it considers most appropriate in the circumstances. The significant accounting policies used are described in note 1 to the consolidated financial statements. Certain amounts in the financial statements are based on estimates and judgments relating to matters not concluded by year-end. The integrity of the information presented in the financial statements is the responsibility of management. Financial information presented elsewhere in this annual report has been prepared by management and is consistent with the information in the consolidated financial statements.

Management is responsible for the development and maintenance of systems of internal accounting and administrative controls of high quality. Such systems are designed to provide reasonable assurance that the financial information is accurate, relevant, and reliable and that the Company's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities and for final approval of the annual consolidated financial statements. The Board has appointed an Audit Committee comprising three Directors, none of whom is an officer or employee of the Company or its subsidiaries. The Audit Committee meets at least four times each year to discharge its responsibilities under a written mandate from the Board of Directors. The Audit Committee meets with management and with the external auditors to satisfy itself that they are properly discharging their responsibilities, reviews the consolidated financial statements and the Auditors' Report, and examines other auditing and accounting matters. The Audit Committee has reviewed the audited consolidated financial statements with management, including a discussion of the quality of the accounting principles as applied and significant judgments affecting the Company's consolidated financial statements. The Audit Committee has discussed with the external auditors the external auditors' judgments of the quality of those principles as applied and judgments noted above. The consolidated financial statements and Management's Discussion and Analysis have been reviewed by the Audit Committee and approved by the Board of Directors of Stantec Inc.

The consolidated financial statements have been examined by the shareholders' auditors, Ernst & Young LLP, Chartered Accountants. The Auditors' Report outlines the nature of their examination and their opinion on the consolidated financial statements of the Company. The external auditors have full and unrestricted access to the Audit Committee, with or without management being present.



Tony Franceschini P.Eng.
President & CEO
February 10, 2006



Don Wilson CA
Vice President & CFO
February 10, 2006

# Auditors' Report

To the Shareholders of
**Stantec Inc.**

We have audited the consolidated balance sheets of **Stantec Inc.** as at December 31, 2005 and 2004 and the consolidated statements of income and retained earnings and cash flows for each of the years in the three-year period ended December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and 2004 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2005 in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

**Chartered Accountants**
Edmonton, Canada
February 10, 2006

# Stantec Inc.
## Consolidated Balance Sheets

| | As at December 31 | |
|---|---|---|
| | 2005 | 2004 |
| | $ | $ |
| | *(In thousands of Canadian dollars)* | |
| **ASSETS** *[note 8]* | | |
| **Current** | | |
| Cash and cash equivalents | **28,143** | 37,890 |
| Restricted cash *[note 2]* | **21,312** | – |
| Accounts receivable, net of allowance for doubtful accounts of $16,053 in 2005 ($21,095 – 2004) | **137,928** | 112,476 |
| Costs and estimated earnings in excess of billings | **66,172** | 40,861 |
| Prepaid expenses | **5,420** | 4,165 |
| Future income tax assets *[note 14]* | **14,827** | 8,532 |
| Other assets *[note 6]* | **6,569** | 4,831 |
| **Total current assets** | **280,371** | 208,755 |
| Property and equipment *[note 3]* | **58,519** | 48,262 |
| Goodwill *[note 4]* | **242,674** | 84,694 |
| Intangible assets *[note 5]* | **27,304** | 6,278 |
| Future income tax assets *[note 14]* | **6,814** | 6,357 |
| Other assets *[note 6]* | **13,097** | 7,754 |
| **Total assets** | **628,779** | 362,100 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| **Current** | | |
| Accounts payable and accrued liabilities *[note 7]* | **106,757** | 78,718 |
| Billings in excess of costs and estimated earnings | **24,251** | 18,832 |
| Income taxes payable | **4,441** | 5,732 |
| Current portion of long-term debt *[note 8]* | **4,813** | 12,820 |
| Future income tax liabilities *[note 14]* | **17,552** | 10,653 |
| **Total current liabilities** | **157,814** | 126,755 |
| Long-term debt *[note 8]* | **81,886** | 21,155 |
| Other liabilities *[note 9]* | **24,764** | 16,818 |
| Future income tax liabilities *[note 14]* | **16,262** | 8,316 |
| **Total liabilities** | **280,726** | 173,044 |
| **Commitments and contingencies** *[notes 2, 8, 10, and 11]* | | |
| **Shareholders' equity** | | |
| Share capital *[note 12]* | **210,604** | 87,656 |
| Contributed surplus *[note 12]* | **5,522** | 2,544 |
| Cumulative translation account *[note 13]* | **(25,575)** | (19,018) |
| Deferred stock compensation | **(833)** | – |
| Retained earnings | **158,335** | 117,874 |
| **Total shareholders' equity** | **348,053** | 189,056 |
| **Total liabilities and shareholders' equity** | **628,779** | 362,100 |

*See accompanying notes*

On behalf of the Board:

Director

Director

# Stantec Inc.
## Consolidated Statements of Income and Retained Earnings

| | Years Ended December 31 | | |
|---|---|---|---|
| | 2005 | 2004 | 2003 |
| | $ | $ | $ |
| | *(In thousands of Canadian dollars, except per share amounts)* | | |
| **Income** | | | |
| Gross revenue | **618,020** | 520,879 | 459,942 |
| Less subconsultant and other direct expenses | **93,468** | 71,728 | 68,546 |
| **Net revenue** | **524,552** | 449,151 | 391,396 |
| Direct payroll costs | **234,553** | 205,513 | 183,471 |
| **Gross margin** | **289,999** | 243,638 | 207,925 |
| Administrative and marketing expenses | **212,633** | 183,739 | 154,788 |
| Depreciation of property and equipment | **12,389** | 11,986 | 9,912 |
| Amortization of intangible assets | **2,542** | 927 | 925 |
| Net interest expense *[note 8]* | **571** | 2,805 | 2,637 |
| Share of income from associated companies | **(187)** | (385) | (580) |
| Foreign exchange (gains) losses | **(449)** | (94) | 615 |
| **Income before income taxes** | **62,500** | 44,660 | 39,628 |
| **Income taxes** *[note 14]* | | | |
| Current | **21,735** | 18,065 | 10,050 |
| Future | **143** | (3,595) | 4,508 |
| **Total income taxes** | **21,878** | 14,470 | 14,558 |
| **Net income for the year** | **40,622** | 30,190 | 25,070 |
| Retained earnings, beginning of the year | **117,874** | 88,266 | 64,240 |
| Shares repurchased *[note 12]* | **(161)** | (582) | (1,044) |
| **Retained earnings, end of the year** | **158,335** | 117,874 | 88,266 |
| **Earnings per share** *[note 15]* | | | |
| Basic | **2.04** | 1.63 | 1.37 |
| Diluted | **1.98** | 1.59 | 1.31 |

*See accompanying notes*

# Stantec Inc.
## Consolidated Statements of Cash Flows

| | Years Ended December 31 | | |
|---|---|---|---|
| | 2005 | 2004 | 2003 |
| | $ | $ | $ |
| | *(In thousands of Canadian dollars)* | | |
| **CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES** | | | |
| Cash receipts from clients | **637,391** | 568,897 | 465,114 |
| Cash paid to suppliers | **(200,445)** | (169,573) | (156,460) |
| Cash paid to employees | **(355,621)** | (313,321) | (274,444) |
| Dividends from equity investments | **550** | 300 | – |
| Interest received | **6,531** | 6,426 | 2,710 |
| Interest paid | **(6,551)** | (8,639) | (4,462) |
| Income taxes paid | **(28,882)** | (10,530) | (18,142) |
| Income taxes recovered | **4,341** | 3,791 | 2,577 |
| **Cash flows from operating activities** *[note 16]* | **57,314** | 77,351 | 16,893 |
| **CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES** | | | |
| Business acquisitions, including cash acquired and bank indebtedness assumed *[note 2]* | **(100,383)** | (18,845) | (6,046) |
| Cash of joint venture held for sale | **–** | – | (369) |
| Restricted cash used for acquisitions *[note 2]* | **9,000** | – | – |
| Increase in investments held for self-insured liabilities | **(7,295)** | (9,562) | – |
| Proceeds on disposition of investments | **522** | 55 | 195 |
| Collection of notes receivable from disposition of Technology and Design Build segments | **406** | 1,014 | – |
| Purchase of property and equipment | **(17,005)** | (17,488) | (28,713) |
| Proceeds on disposition of property and equipment | **155** | 34,672 | 1,444 |
| **Cash flows used in investing activities** | **(114,600)** | (10,154) | (33,489) |
| **CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES** | | | |
| Repayment of long-term debt | **(46,875)** | (35,546) | (20,592) |
| Proceeds from long-term borrowings | **95,929** | 13,960 | – |
| Net change in bank indebtedness financing | **–** | (17,151) | 17,151 |
| Repurchase of shares for cancellation *[note 12]* | **(195)** | (720) | (1,392) |
| Share issue costs *[note 12]* | **(1,969)** | – | – |
| Proceeds from issue of share capital *[note 12]* | **961** | 3,490 | 651 |
| **Cash flows from (used in) financing activities** | **47,851** | (35,967) | (4,182) |
| Foreign exchange loss on cash held in foreign currency | **(312)** | (683) | (1,081) |
| **Net increase (decrease) in cash and cash equivalents** | **(9,747)** | 30,547 | (21,859) |
| Cash and cash equivalents, beginning of the year | **37,890** | 7,343 | 29,202 |
| **Cash and cash equivalents, end of the year** | **28,143** | 37,890 | 7,343 |

*See accompanying notes*

## Stantec Inc.
## Notes to the Consolidated Financial Statements

### 1. Summary of Significant Accounting Policies

Stantec Inc. (the Company) is a provider of comprehensive professional services in the area of infrastructure and facilities for clients in the public and private sectors. The Company's services include planning, engineering, architecture, interior design, landscape architecture, surveying and geomatics, environmental sciences, and project economics.

**Generally accepted accounting principles**

The Company prepares its consolidated financial statements in accordance with Canadian generally accepted accounting principles (GAAP). These financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below. The effects of differences between the application of Canadian and United States GAAP on the financial statements of the Company are described in note 20.

Effective January 1, 2005, the Company adopted Accounting Guideline 15 (AcG-15)—"Consolidation of Variable Interest Entities" (VIEs) of the Canadian Institute of Chartered Accountants (CICA) Handbook. VIEs are those entities that are subject to control on a basis other than ownership of voting interests. AcG-15 provides guidance for identifying VIEs and requires the primary beneficiary of a VIE to consolidate the VIE. These consolidated financial statements include all VIEs for which the Company is the primary beneficiary. The initial adoption of this accounting guideline on a prospective basis did not have an impact on the Company's consolidated financial statements.

Effective January 1, 2004, the Company adopted the recommendations of Section 1100 of the CICA Handbook, "Generally Accepted Accounting Principles." This section establishes standards for financial reporting in accordance with GAAP. It describes what constitutes GAAP and its sources and states that an entity should apply every primary source of GAAP that deals with the accounting and reporting in financial statements of transactions or events it encounters. The initial adoption of these recommendations on a prospective basis on January 1, 2004, did not have an impact on the Company's consolidated financial statements.

**Use of estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates used in the preparation of these consolidated financial statements include the percentage of completion of fixed fee and variable fee with ceiling contracts, provisions for losses on incomplete contracts, allowances for doubtful accounts receivable, provision for legal claims, provision for self-insured liabilities, the fair value of stock-based awards, the fair value of identifiable intangible assets acquired in business acquisitions, liabilities for lease exit activities, and future cash flows used to estimate the fair value of reporting units for goodwill impairment purposes. Actual results may differ from these estimates.

During the 2005 fiscal year, management revised its estimate of the allowance for doubtful accounts based on improved information available on historical loss experience. This revision was applied prospectively and reduced the allowance for doubtful accounts and administrative and marketing expenses at the time of the revision by $4,000,000.

**Principles of consolidation**

The consolidated financial statements include the accounts of the Company, its subsidiary companies, and all VIEs for which the Company is the primary beneficiary. All significant intercompany accounts and transactions have been eliminated. The results of the operations of subsidiaries acquired during the year are included from their respective dates of acquisition.

Joint ventures and partnerships are accounted for on the proportionate consolidation basis, which results in the Company recording its pro rata share of the assets, liabilities, revenues, and expenses of each of these entities.

**Cash and cash equivalents**

Cash and cash equivalents include cash and unrestricted investments with initial maturities of three months or less. Such investments are carried at the lower of cost or market value.

**Investments**

Investments in associated companies over which the Company is able to exercise significant influence, but not control, are accounted for using the equity method, which reflects the Company's investment at original cost plus its share of earnings (losses) net of dividends received. These investments include Teshmont Consultants Inc. (50%), SSBV Consultants Inc. (33.3%), and Planning & Stantec Limited (50%).

Other investments, including investments held for self-insured liabilities, are recorded at cost. When a loss in the value of such investments occurs that is other than temporary, the investment is written down to recognize the loss.

**Property and equipment**

Property and equipment is recorded at cost less accumulated depreciation. Depreciation is calculated at annual rates designed to write off the costs of assets over their estimated useful lives as follows:

| | | |
|---|---|---|
| Engineering equipment | 20–30% | declining balance |
| Business information systems | | straight-line over 3–5 years |
| Office equipment | 20–30% | declining balance |
| Automotive equipment | 30% | declining balance |
| Leasehold improvements | | straight-line over term of lease plus one renewal period to a maximum of 15 years or the improvement's economic life |
| Buildings | 4–5% | declining balance |

**Leases**

Leases that transfer substantially all the risks and benefits of ownership of assets to the Company are accounted for as capital leases. Assets under capital leases are recorded at the inception of the lease together with the related long-term obligation to reflect the purchase and financing thereof. Rental payments under operating leases are expensed as incurred.

From time to time, the Company enters into or renegotiates premises operating leases that result in the receipt of lease inducement benefits. These benefits are accounted for as a reduction of rental expense over the terms of the associated leases.

**Goodwill and intangible assets**
The cost of intangible assets with finite lives is amortized over the period in which the benefits of such assets are expected to be realized, principally on a straight-line basis. The Company's policy is to amortize client relationships with determinable lives over periods ranging from 10 to 15 years. Contract backlog is amortized over estimated contractual lives of generally less than one and a half years. Other intangible assets include technology, non-compete agreements, and advantageous leasehold commitments, which are amortized over estimated lives of one to five years. Goodwill is not amortized but is evaluated annually for impairment by comparing the fair value of the reporting unit, determined on a discounted after-tax cash flow basis, to the carrying value. An impairment loss would be recognized if the carrying value of the goodwill were to exceed its fair value.

**Long-lived assets**
The Company monitors the recoverability of long-lived assets, including property and equipment and intangible assets with finite lives, using factors such as expected future asset utilization, business climate, and future undiscounted cash flows expected to result from the use of the related assets. An impairment loss would be recognized if the carrying value of the long-lived asset were to exceed its fair value.

**Accrual and investments held for self-insured liabilities**
The Company self-insures certain risks related to professional liability and automobile physical damages. The accrual for self-insured liabilities includes estimates of the costs of reported claims (including potential claims that are probable of being asserted) and is based on estimates of loss using assumptions made by management, including consideration of actuarial projections. The accrual for self-insured liabilities does not include unasserted claims where assertion by a third party is not probable.

The Company invests funds to support the accrual for self-insured liabilities. These investments are classified in other assets as investments held for self-insured liabilities.

**Forward contracts**
The Company may enter into forward currency exchange contracts to manage risk associated with net operating assets denominated in US dollars. The Company's policy is to not utilize derivative financial instruments for trading or speculative purposes. These derivative contracts, which are not accounted for as hedges, are marked to market, and any changes in the market value are recorded in income or expense when the changes occur. The fair value of such instruments is recorded as either accounts receivable or payable.

**Non-interest-bearing debt**
Non-interest-bearing debt is carried at its present value using discount rates based on the bank prime rate prevailing at the time the debt was issued. The discount is applied over the term of the debt and is charged to interest expense.

**Fair value of financial instruments**
The carrying amounts of cash and cash equivalents, restricted cash, accounts receivable, bank loans, and accounts payable and accrued liabilities approximate their fair values because of the short-term maturity of these instruments. The carrying amount of bank loans approximates its fair value because the applicable interest rate is based on variable reference rates. The carrying values of other financial assets and financial liabilities approximate their fair values except as otherwise disclosed in the financial statements.

**Credit risk**
Financial instruments that subject the Company to credit risk consist primarily of cash and cash equivalents, investments held for self-insured liabilities, and accounts receivable. The Company maintains an allowance for estimated credit losses and mitigates the risk of its investment in bonds through the overall quality and mix of its bond portfolio. The Company provides services to diverse clients in various industries and sectors of the economy, and its credit risk is not concentrated in any particular client, industry, economic, or geographic sector.

**Interest rate risk**
The Company is subject to interest rate risk to the extent that its credit facilities are based on floating rates of interest. In addition, the Company is subject to interest rate pricing risk to the extent that its investments held for self-insured liabilities contain fixed rate government and corporate bonds. The Company has not entered into any derivative agreements to mitigate these risks.

**Revenue recognition**
In the course of providing its services, the Company incurs certain direct costs for subconsultants and other expenditures that are recoverable directly from clients. These direct costs are included in the Company's gross revenue. Since such direct costs can vary significantly from contract to contract, changes in gross revenue may not be indicative of the Company's revenue trends. Accordingly, the Company also reports net revenue, which is gross revenue less subconsultant and other direct expenses.

Revenue from fixed fee and variable fee with ceiling contracts is recognized using the percentage of completion method. Contract revenue is recognized on the ratio of contract costs incurred to total estimated costs. Provisions for estimated losses on incomplete contracts are made in the period in which the losses are determined. Revenue from time and material contracts without stated ceilings and from short-term projects is recognized as costs are incurred. Revenue is calculated based on billing rates for the services performed. Costs and estimated earnings in excess of billings represents work in progress that has been recognized as revenue but not yet invoiced to clients. Billings in excess of costs and estimated earnings represents amounts that have been invoiced to clients but not yet recognized as revenue.

**Employee benefit plans**
The Company contributes to group retirement savings plans and an employee share purchase plan based on the amount of employee contributions subject to maximum limits per employee. The Company accounts for such defined contributions as an expense in the period in which the contributions are made. The expense recorded in 2005 was $8,436,000 (2004 – $7,311,000; 2003 – $5,980,000). The Company does not provide postemployment or postretirement benefits.

**Foreign currency translation**
Transactions denominated in a foreign currency and the financial statements of foreign subsidiaries (excluding US-based subsidiaries) included in the consolidated financial statements are translated as follows: monetary items at the rate of exchange in effect at the balance sheet date; non-monetary items at historical exchange rates; and revenue and expense items (except depreciation and amortization, which are translated at historical exchange rates) at the average exchange rate for the year. Any resulting gains or losses are included in income in the year incurred.

The Company's US-based subsidiaries are designated as self-sustaining operations. The financial statements of these subsidiaries are translated using the current rate method. Under this method, assets and liabilities are translated at the rate of exchange in effect at the balance sheet date, and revenue and expense

items (including depreciation and amortization) are translated at the average rate of exchange for the year. The resulting exchange gains and losses are deferred and included as a separate component of shareholders' equity in the cumulative translation account.

**Stock-based compensation and other stock-based payments**
The Company has one share option plan, which is described in note 12, and accounts for grants under this plan in accordance with the fair value-based method of accounting for stock-based compensation. Compensation expense for stock options awarded under the plan is measured at the fair value at the grant date using the Black-Scholes valuation model and is recognized over the vesting period of the options granted. In years prior to January 1, 2002, the Company recognized no compensation expense when shares or stock options were issued.

**Investment tax credits**
Investment tax credits arising from qualifying scientific research and experimental development efforts are recorded as a reduction of the applicable administrative and marketing expenses when there is reasonable assurance of their ultimate realization. Investment tax credits of $1,239,000 (2004 – $426,000; 2003 – $237,000) were recorded and reduced administrative and marketing expenses in 2005.

**Income taxes**
The Company uses the liability method to account for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between financial reporting and the tax bases of assets and liabilities and measured using the substantively enacted tax rates and laws that will be in effect when these differences are expected to reverse.

**Earnings per share**
Basic earnings per share is computed based on the weighted average number of common shares outstanding during the year. Diluted earnings per share is computed using the treasury stock method, which assumes that the cash that would be received on the exercise of options is applied to purchase shares at the average price during the year and that the difference between the shares issued on the exercise of options and the number of shares obtainable under this computation, on a weighted average basis, is added to the number of shares outstanding. The impact of outstanding restricted shares, on a weighted average basis, is also added to the number of shares outstanding. Antidilutive options are not considered in computing diluted earnings per share.

**Allowance for doubtful accounts**
The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability to collect on its accounts receivable. The Company uses estimates in arriving at its allowance for doubtful accounts that are based, primarily, on the age of the outstanding accounts receivable and on its historical collection and loss experience.

**Recent accounting pronouncements**
In January 2005, the CICA released the new handbook Section 1530, "Comprehensive Income," and Section 3251, "Equity," effective for annual and interim periods beginning on or after October 1, 2006. These pronouncements further aligned Canadian GAAP with US GAAP (note 20). Section 1530 establishes standards for the reporting and display of comprehensive income. Comprehensive income is defined to include revenues, expenses, gains, and losses that, in accordance with primary sources of GAAP, are recognized in comprehensive income but excluded from net income. Section 1530 does not address issues

of recognition or measurement for comprehensive income and its components. Section 3251, "Equity," establishes standards for the presentation of equity and changes in equity during the reporting period. The requirements set out in Section 3251 are in addition to those established in Section 1530 and require that an enterprise present separately the components of equity: retained earnings, accumulated other comprehensive income, the total for retained earnings and accumulated other comprehensive income, contributed surplus, share capital, and reserves. Upon initial adoption of these recommendations in fiscal 2007, unrealized losses on the translation of self-sustaining foreign operations will be included in comprehensive income. Currently, these unrealized losses are reflected in the Company's cumulative translation account.

In January 2005, the CICA released the new handbook Section 3855, "Financial Instruments—Recognition and Measurement," effective for annual and interim periods beginning on or after October 1, 2006. This pronouncement further aligned Canadian GAAP with US GAAP (note 20). The section provides standards for the classification of financial instruments and related interest, dividends, gains, and losses. It prescribes when a financial instrument should be stated at fair value and when it would be valued using cost-based measures. Financial instruments are defined to include accounts receivable and payable, loans, investments in debt and equity securities, and derivative contracts. Upon initial adoption of these recommendations in fiscal 2007, the Company's investments held for self-insured liabilities will be reflected as investments held for sale, and the resulting unrealized gains or losses will be reflected through other comprehensive income until realized, at which time the gains or losses will be recognized in net income. This new standard is not expected to have a material effect on the results of the Company's operations.

## 2. Business Acquisitions

Acquisitions are accounted for under the purchase method of accounting, and the results of operations since the respective dates of acquisition are included in the consolidated statements of income. From time to time, as a result of the timing of acquisitions in relation to the Company's reporting schedule, certain of the purchase price allocations may not be finalized at the initial time of reporting. Purchase price allocations are completed after the vendors' final financial statements and income tax returns have been prepared and accepted by the Company. Such preliminary purchase price allocations are based on management's best estimates of the fair value of the acquired assets and liabilities. Upon finalization, adjustments to the initial estimates may be required, and these adjustments may be material. The purchase prices of acquisitions are generally subject to price adjustment clauses included in the purchase agreements. Such purchase price adjustments generally result in an increase or reduction to the promissory note consideration recorded at acquisition to reflect either more or less non-cash working capital realized than was originally expected. These purchase price adjustments, therefore, have no net effect on the original purchase price allocations. In the case of some acquisitions, additional consideration may be payable based on future performance parameters. As at December 31, 2005, the maximum contingent consideration that may be payable in 2006 and future years is approximately $9,000. This additional consideration is recorded as additional goodwill in the period in which the contingency is resolved.

**Acquisitions in fiscal 2005**

On August 3, 2005, the Company acquired the shares and business of CPV Group Architects & Engineers Ltd. for cash consideration. This acquisition strengthens the Company's architecture and interior design presence in Canada.

On September 15, 2005, the Company acquired the shares and business of The Keith Companies, Inc. (Keith) for a combination of cash consideration and Stantec common shares. Under the terms of the

agreement, the number of common shares issued (3,328,776) as consideration was based on the average sale price of the Stantec common stock on the Toronto Stock Exchange for each of the 20 trading days ending on the second trading day prior to the closing of the merger, converted to US dollars for each trading day at the noon buying rate quoted by the Federal Reserve Bank of New York on such trading day. In order for the Keith transaction to qualify as a reorganization under the provisions of Section 368(a) of the U.S. Internal Revenue Code of 1986, a portion of Keith's cash, at the time of acquisition, is subject to restrictions on its use. Generally, the restricted cash can be used to fund further acquisitions as well as future capital expenditures. The acquisition of Keith supplements the Company's urban land development services group and increases the breadth and depth of the Company's multidiscipline engineering and consulting services by adding employees and offices throughout the western and midwestern United States.

On October 1, 2005, the Company acquired the shares and business of Keen Engineering Co. Ltd. for cash consideration and promissory notes. This acquisition supplements the Company's building design services in Canada and the western United States.

The purchase price allocations for the CPV Group Architects & Engineers Ltd., Keith, and Keen Engineering Co. Ltd. acquisitions have not yet been finalized. The Company expects to finalize the purchase price allocations for the CPV Group Architects & Engineers Ltd. and Keith acquisitions during the first quarter of 2006 and for the Keen Engineering Co. Ltd. acquisition during the second quarter of 2006.

During 2005, the Company paid additional contingent consideration in connection with the Cosburn Patterson Mather Limited (2002) acquisition and finalized the purchase price allocations for The Sear-Brown Group, Inc. (2004), GBR Architects Limited (2004), and Dunlop Architects Inc. (2004) acquisitions. In addition, the Company adjusted the purchase price on the Ecological Services Group Inc. (2003), GBR Architects Limited (2004), and Dunlop Architects Inc. (2004) acquisitions pursuant to price adjustment clauses included in the purchase agreements.

**Acquisitions in fiscal 2004**

During 2004, the Company acquired the shares and business of The Sear-Brown Group, Inc. (April 2, 2004), GBR Architects Limited (May 31, 2004), and Dunlop Architects Inc. (October 8, 2004) and the assets and business of Shaflik Engineering (November 26, 2004). The Sear-Brown Group, Inc. acquisition opened up a new geographic market for the Company in the northeastern United States and a new service in the bio/pharmaceuticals industry. The acquisition of GBR Architects Limited and of Dunlop Architects Inc. supplemented the Company's architecture and interior design practice while increasing its presence in Winnipeg and the Greater Toronto Area, respectively. The Shaflik Engineering acquisition strengthened the Company's capabilities for upcoming Olympic projects in British Columbia with its strong involvement in sports facilities and transportation systems.

During 2004, the Company also adjusted the purchase price in connection with the Cosburn Patterson Mather Limited (2002), The Spink Corporation (2001), the APAI Architecture Inc. and Mandalian Enterprises Limited (2003), the Graeme & Murray Consultants Ltd. (2002), the Ecological Services Group Inc. (2003), and The RPA Group (2002) acquisitions pursuant to price adjustment clauses included in the purchase agreements.

**Aggregate consideration paid**

Details of the aggregate consideration given and of the fair values of net assets acquired or adjusted for are as follows:

| | Keith 2005 $000s | Other 2005 $000s | Total 2005 $000s | Total 2004 $000s |
|---|---|---|---|---|
| Cash consideration | 107,062 | 11,200 | 118,262 | 12,432 |
| Share consideration | 125,540 | – | 125,540 | – |
| Promissory notes | – | 2,753 | 2,753 | 1,487 |
| **Purchase price** | 232,602 | 13,953 | 246,555 | 13,919 |
| **Assets and liabilities acquired at fair values** | | | | |
| Cash acquired (bank indebtedness assumed) | 22,075 | (4,196) | 17,879 | (6,413) |
| Restricted cash acquired | 30,882 | – | 30,882 | – |
| Non-cash working capital | 9,747 | 3,929 | 13,676 | 6,057 |
| Property and equipment | 5,751 | 991 | 6,742 | 3,211 |
| Investments | 32 | – | 32 | 87 |
| Goodwill | 149,844 | 12,218 | 162,062 | 18,425 |
| Other long-term assets | 554 | – | 554 | – |
| Intangible assets | | | | |
| Client relationships | 17,476 | 947 | 18,423 | 1,357 |
| Contract backlog | 3,995 | 1,053 | 5,048 | 301 |
| Other | 669 | (139) | 530 | 500 |
| Other long-term liabilities | (1,380) | 243 | (1,137) | (1,642) |
| Long-term debt | – | (745) | (745) | (8,414) |
| Future income taxes | (8,226) | (348) | (8,574) | 450 |
| Deferred stock compensation | 1,183 | – | 1,183 | – |
| **Net assets acquired** | 232,602 | 13,953 | 246,555 | 13,919 |

All of the goodwill is non-deductible for income tax purposes.

At the time of acquisition, management estimates the exit costs to downsize or close offices occupied by the acquired entity. These costs are accrued in other long-term liabilities as part of the purchase price allocation (note 9).

**Pro forma data**

The following unaudited pro forma data presents information as if the acquisitions of The Sear-Brown Group, Inc., GBR Architects Limited, Dunlop Architects Inc., Shaflik Engineering Ltd., CPV Group Architects & Engineers Ltd., Keith, and Keen Engineering Co. Ltd. had occurred on January 1, 2004. This unaudited pro forma data is provided for information purposes only and is based on historical information. This unaudited pro forma data does not necessarily reflect the actual results of operations that would have occurred had these acquired entities and Stantec Inc. comprised a single entity during the periods, nor is it necessarily indicative of the future results of the operations of the combined entities.

| | 2005 $000s | 2004 $000s |
|---|---|---|
| | | *(Unaudited)* |
| Pro forma gross revenue | **753,291** | 726,827 |
| Pro forma net revenue | **646,614** | 628,844 |
| Pro forma net income | **49,098** | 39,563 |
| Basic pro forma earnings per share | **2.20** | 1.81 |
| Diluted pro forma earnings per share | **2.15** | 1.77 |

## 3. Property and Equipment

| | 2005 | | 2004 | |
|---|---|---|---|---|
| | Cost $000s | Accumulated Depreciation $000s | Cost $000s | Accumulated Depreciation $000s |
| Engineering equipment | **42,560** | **22,736** | 33,622 | 19,058 |
| Business information systems | **11,475** | **4,237** | 9,681 | 1,796 |
| Office equipment | **23,030** | **10,071** | 19,953 | 7,519 |
| Automotive equipment | **5,263** | **2,867** | 4,254 | 2,578 |
| Leasehold improvements | **14,226** | **2,053** | 11,994 | 2,031 |
| Buildings | **4,204** | **704** | 1,901 | 594 |
| Land | **429** | **–** | 433 | – |
| | **101,187** | **42,668** | 81,838 | 33,576 |
| **Net book value** | **58,519** | | 48,262 | |

In 2004 the Company completed the sale of its Edmonton office building (included in buildings and land) for cash proceeds of $34,500,000. Concurrent with the sale, the Company leased the property back for a period of 15 years. The lease is accounted for as an operating lease. The resulting gain of $7,103,000 was deferred and is being amortized over the lease term (note 9).

Included in leasehold improvements is construction work in progress in the amount of $337,000 (2004 – buildings – $89,000) on which depreciation has not started.

## 4. Goodwill

| | 2005 $000s | 2004 $000s |
|---|---|---|
| Goodwill, beginning of the year | **84,694** | 69,696 |
| Current year acquisitions | **160,840** | 18,006 |
| Additional purchase price payments | **700** | – |
| Other purchase price adjustments | **522** | 419 |
| Impact of foreign exchange | **(4,082)** | (3,427) |
| **Goodwill, end of the year** | **242,674** | 84,694 |

## 5. Intangible Assets

| | 2005 | | 2004 | |
|---|---|---|---|---|
| | Gross Carrying Amount $000s | Accumulated Amortization $000s | Gross Carrying Amount $000s | Accumulated Amortization $000s |
| Client relationships | **24,914** | **2,232** | 6,859 | 1,195 |
| Contract backlog | **4,900** | **1,219** | 339 | 290 |
| Other | **1,218** | **277** | 750 | 185 |
| | **31,032** | **3,728** | 7,948 | 1,670 |
| **Carrying amount** | **27,304** | | 6,278 | |

Once an intangible asset is fully amortized, the gross carrying amount and related accumulated amortization are removed from the accounts. Other than goodwill, the Company has not recognized any intangible assets with indefinite lives. For intangible assets held as of December 31, 2005, the estimated aggregate amortization expense for each of the next five years is as follows:

| | $000s |
|---|---|
| 2006 | 5,762 |
| 2007 | 3,154 |
| 2008 | 2,609 |
| 2009 | 2,541 |
| 2010 | 2,403 |
| Thereafter | 10,835 |
| | 27,304 |

## 6. Other Assets

| | 2005 $000s | 2004 $000s |
|---|---|---|
| Investments held for self-insured liabilities | **16,857** | 9,562 |
| Investments in associated companies | **1,545** | 1,909 |
| Investments – other | **710** | 1,114 |
| Other | **554** | – |
| | **19,666** | 12,585 |
| Less current portion of investments held for self-insured liabilities | **6,569** | 4,831 |
| | **13,097** | 7,754 |

The investments held for self-insured liabilities consist of government and corporate bonds of $14,013,000 (2004 – $8,740,000) and equity securities of $2,844,000 (2004 – $822,000). The bonds bear interest at rates ranging from 3.0 to 6.8% per annum (2004 – 3.5 to 8.6%). The estimated fair value of the bonds at December 31, 2005, was $13,721,000 (2004 – $8,761,000) and of the equities was $3,406,000 (2004 – $839,000). The term to maturity of the bond portfolio is $373,000 due within one year and $13,640,000 due from one to 10 years.

## 7. Accounts Payable and Accrued Liabilities

| | 2005 $000s | 2004 $000s |
|---|---|---|
| Trade accounts payable | **26,784** | 21,651 |
| Employee and payroll liabilities | **52,314** | 37,188 |
| Accrued liabilities | **27,659** | 19,879 |
| | **106,757** | 78,718 |

## 8. Long-Term Debt

| | 2005 $000s | 2004 $000s |
|---|---|---|
| Non-interest-bearing note payable | **122** | 111 |
| Other non-interest-bearing notes payable | **5,643** | 7,862 |
| Bank loan | **79,035** | 23,997 |
| Mortgages payable | **1,706** | 1,765 |
| Other | **193** | 240 |
| | **86,699** | 33,975 |
| Less current portion | **4,813** | 12,820 |
| | **81,886** | 21,155 |

The non-interest-bearing note payable is due November 1, 2027, in the amount of $933,000. The note's carrying value of $122,000 is determined using a discount rate of 9.75%. If the non-interest-bearing note payable were discounted at interest rates in effect at December 31, 2005, the fair value of the note would be $184,000 (2004 – $177,000).

The carrying values of the other non-interest-bearing notes payable have been calculated using a weighted average rate of interest of 5.58% and are supported by promissory notes. The notes are due at various times from 2006 to 2008. The aggregate maturity value of the notes is $5,985,000 (2004 – $8,336,000). As at December 31, 2005, there were no US-dollar non-interest-bearing notes outstanding. As at December 31, 2004, $47,000 of the notes' carrying value was payable in US funds (US$39,000). The carrying value of the other non-interest-bearing notes payable approximates their fair value based on interest rates in effect at December 31, 2005.

During 2005, the Company replaced its existing revolving credit facility with a revolving credit facility in the amount of $160 million due on August 31, 2008. This facility is available for acquisitions, working capital needs, capital expenditures, and general corporate purposes. At December 31, 2005, the facility was accessed to finance a portion of the Keith acquisition. Depending on the form under which the credit facility is accessed, rates of interest will vary between Canadian prime, US base rate, or LIBOR rate or bankers acceptance rates plus 65 or 85 basis points. As at December 31, 2005, $29,075,000 of the bank loan was payable in US funds (US$25,000,000). Repayment of loans under the credit facility may be made from time to time at the option of the Company. The average interest rate applicable at December 31, 2005, was 4.34% (2004 – 3.47%). The credit facility agreement contains restrictive covenants, including, but not limited to, debt to earnings ratio and earnings to debt service ratio. The Company was in compliance with all covenants under this agreement as at December 31, 2005. All assets of the Company are held as collateral under a general security agreement for the bank loan.

The mortgages payable bear interest at a weighted average rate of 7.67% and are supported by first mortgages against land and buildings. Subsequent to the year-end, the mortgages payable were paid out in full.

Other long-term debt bears interest at a weighted average rate of 3.5% and is due at dates ranging from 2006 to 2007. No assets are pledged in support of this debt.

Principal repayments required on long-term debt in each of the next five years and thereafter are as follows:

| | $000s |
|---|---|
| 2006 | 4,813 |
| 2007 | 1,661 |
| 2008 | 80,103 |
| 2009 | – |
| 2010 | – |
| Thereafter | 122 |
| | 86,699 |

The interest incurred on long-term debt in 2005 was $2,000,000 (2004 – $2,219,000; 2003 – $2,681,000). In 2005 total interest expense, net of interest income, was $571,000 (2004 – $2,805,000; 2003 – $2,637,000). At December 31, 2005, the Company had issued and outstanding letters of credit totaling $1,070,000.

## 9. Other Liabilities

| | 2005 $000s | 2004 $000s |
|---|---|---|
| Provision for self-insured liabilities | **12,866** | 5,236 |
| Deferred gain on sale leaseback | **6,624** | 7,073 |
| Lease inducement benefits | **7,997** | 4,742 |
| Liabilities on lease exit activities | **2,251** | 2,817 |
| Other | **1,021** | – |
| | **30,759** | 19,868 |
| Less current portion included in accrued liabilities | **5,995** | 3,050 |
| | **24,764** | 16,818 |

**Provision for self-insured liabilities**

Effective August 1, 2003, the Company began self-insuring a portion of its estimated liabilities that may arise in connection with reported legal claims (note 11). This provision is based on the results of an actuarial review performed in 2005 and 2004, with the current and long-term portion determined based on the actuarial estimate provided. At December 31, 2005, the long-term portion was $10,288,000 (2004 – $4,731,000).

| | 2005 $000s | 2004 $000s |
|---|---|---|
| Provision, beginning of the year | **5,236** | 2,410 |
| Current year provision | **9,764** | 2,826 |
| Payment for claims settlement | **(2,134)** | – |
| **Provision, end of the year** | **12,866** | 5,236 |

The self-insured liability increased during 2005, primarily due to new claims incurred and reported since the end of 2004. Claim settlements of $2,134,000 were made in 2005. The timing of such settlement payments is dependent upon the resolution of case-specific matters and may extend over several months or years.

**Liabilities on lease exit activities**

Charges are accrued when management closes offices in existing operations or finalizes plans to downsize offices in locations assumed from an acquiree upon a business acquisition. Included in the liability is the present value of the remaining lease payments, reduced by estimated sublease rentals that can reasonably be obtained.

| | 2005 $000s | 2004 $000s |
|---|---|---|
| Liability, beginning of the year | **2,817** | – |
| Current year provision: | | |
| Established for existing operations | **609** | 936 |
| Resulting from acquisitions | **276** | 3,465 |
| Payment or reductions: | | |
| Impacting net income | **(1,103)** | (1,375) |
| Impacting the purchase price allocation | **(325)** | – |
| Impact of foreign exchange | **(23)** | (209) |
| **Liability, end of the year** | **2,251** | 2,817 |

## 10. Commitments

Commitments for annual basic premises rent under long-term leases and for equipment and vehicle operating leases for the next five years are as follows:

| | $000s |
|---|---|
| 2006 | 34,794 |
| 2007 | 31,248 |
| 2008 | 25,240 |
| 2009 | 21,936 |
| 2010 | 18,910 |
| Thereafter | 79,585 |
| | 211,713 |

The premise rental expense for the year ended December 31, 2005, was $29,282,000 (2004 – $25,116,000; 2003 – $19,321,000).

## 11. Contingencies

In the normal conduct of operations, various legal claims are pending against the Company alleging, among other things, breaches of contract or negligence in connection with the performance of consulting services. The Company carries professional liability insurance, subject to certain deductibles and policy limits, and has a captive insurance company that provides insurance protection against such claims. In some cases, parties are seeking damages that substantially exceed the Company's insurance coverage. Based on advice and information provided by legal counsel, the Company's previous experience with the settlement of similar claims, and the results of the annual actuarial review, management believes that the Company has recognized adequate provisions for probable and reasonably estimable liabilities associated with these claims and that their ultimate resolutions will not materially exceed insurance coverages or have a material adverse effect on the Company's consolidated financial position or annual results of operations. Management cannot estimate the extent to which losses exceeding those already recorded in the financial statements may be incurred.

## 12. Share Capital

**Authorized**

| | |
|---|---|
| Unlimited | Common shares, with no par value |
| Unlimited | Preferred shares issuable in series with attributes designated by the Board of Directors |

**Common shares issued and outstanding**

| | Capital Stock | | | | | | Contributed Surplus | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2005 | | 2004 | | 2003 | | 2005 | 2004 | 2003 |
| | Shares | | Shares | | Shares | | | | |
| | # | $000s | # | $000s | # | $000s | $000s | $000s | $000s |
| Balance, beginning of the year | **18,871,085** | **87,656** | 18,327,284 | 84,281 | 18,282,720 | 83,973 | **2,544** | 1,842 | 1,247 |
| Share options exercised for cash | **120,070** | **961** | 573,101 | 3,490 | 119,264 | 651 | | | |
| Stock-based compensation expense | | | | | | | **963** | 725 | 600 |
| Shares repurchased under normal course issuer bid. | **(6,800)** | **(33)** | (29,300) | (134) | (74,700) | (343) | **(1)** | (4) | (5) |
| Reclassification of fair value of stock options previously expensed | | **159** | | 19 | | – | **(159)** | (19) | – |
| Shares issued on acquisition | **3,328,776** | **123,365** | – | – | – | – | | | |
| Restricted shares issued on acquisition | | | | | | | **2,175** | – | |
| Share issue costs | | **(1,504)** | | – | | – | | | |
| **Balance, end of the year** | **22,313,131** | **210,604** | 18,871,085 | 87,656 | 18,327,284 | 84,281 | **5,522** | 2,544 | 1,842 |

During 2005, 6,800 common shares (2004 – 29,300; 2003 – 74,700) were repurchased for cancellation pursuant to an ongoing Normal Course Issuer Bid at a cost of $195,000 (2004 – $720,000; 2003 –

$1,392,000). Of this amount, $33,000 and $1,000 (2004 – $134,000 and $4,000; 2003 – $343,000 and $5,000) reduced the share capital and contributed surplus accounts, respectively, with $161,000 (2004 – $582,000; 2003 – $1,044,000) being charged to retained earnings.

During 2005, the Company incurred share issue costs of $1,969,000 less a future tax recovery of $465,000.

During 2005, the Company recognized a stock-based compensation expense of $1,814,000 (2004 – $1,014,000; 2003 – $706,000) in administrative and marketing expenses. Of the amount expensed, $963,000 related to the fair value of the options granted (2004 – $725,000; 2003 – $600,000); $519,000 related to deferred share unit compensation (2004 – $289,000; 2003 – $106,000), and $332,000 related to the restricted shares issued on the Keith acquisition. The fair value of the options granted was reflected through contributed surplus; the deferred share unit compensation was reflected through accrued liabilities; and the restricted shares were reflected through deferred stock compensation. Upon the exercise of share options for which a stock-based compensation expense has been recognized, the cash paid together with the related portion of contributed surplus is credited to share capital. Upon the vesting of restricted shares for which a stock-based compensation expense has been recognized, the related portion of contributed surplus is credited to share capital.

**Share options**

Under the Company's share option plan, options to purchase common shares may be granted by the Board of Directors to directors, officers, and employees. Options are granted at exercise prices equal to or greater than fair market value at the issue date, generally vest evenly over a three-year period, and have contractual lives that range from five to 10 years. The aggregate number of common shares reserved for issuance that may be purchased upon the exercise of options granted pursuant to the plan shall not exceed 996,003 common shares. At December 31, 2005, 57,739 options were available for issue.

The Company has granted share options to directors, officers, and employees to purchase 938,264 shares at prices between $3.50 and $27.10 per share. These options expire on dates between March 14, 2006, and January 2, 2013.

| | 2005 | | 2004 | | 2003 | |
|---|---|---|---|---|---|---|
| | Shares # | Weighted Average Exercise Price $ | Shares # | Weighted Average Exercise Price $ | Shares # | Weighted Average Exercise Price $ |
| Share options, beginning of the year | **1,071,333** | **13.34** | 1,479,100 | 9.28 | 1,296,200 | 6.09 |
| Granted | **–** | **–** | 167,000 | 24.50 | 307,500 | 21.29 |
| Exercised | **(120,070)** | **8.00** | (573,101) | 6.09 | (119,264) | 5.46 |
| Cancelled | **(12,999)** | **23.69** | (1,666) | 18.40 | (5,336) | 12.62 |
| **Share options, end of the year** | **938,264** | **13.88** | 1,071,333 | 13.34 | 1,479,100 | 9.28 |

The Company had issued options to directors, officers, and employees at December 31, 2005, as follows:

| Options Outstanding | | | | Options Exercisable | |
|---|---|---|---|---|---|
| Range of Exercise Prices $ | Outstanding # | Weighted Average Remaining Contractual Life in Years | Weighted Average Exercise Price $ | Shares Exercisable # | Weighted Average Exercise Price $ |
| 3.50 – 3.60 | 347,500 | 0.8 | 3.56 | 347,500 | 3.56 |
| 5.20 – 7.00 | 40,550 | 0.8 | 6.05 | 40,550 | 6.05 |
| 14.50 – 18.85 | 159,400 | 4.1 | 15.62 | 159,400 | 15.62 |
| 21.00 – 27.10 | 390,814 | 5.8 | 23.17 | 148,654 | 22.22 |
| 3.50 – 27.10 | 938,264 | 3.4 | 13.88 | 696,104 | 10.45 |

The fair value of options granted subsequent to January 1, 2002, is determined at the date of grant using the Black-Scholes option-pricing model. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including expected stock price volatility. Because the Company's employee stock options have characteristics that are significantly different from those of traded options, and because changes in subjective input assumptions can materially affect the fair value estimate, in management's opinion the existing models do not necessarily provide a reliable single measure of the fair value of the Company's employee stock options.

The estimated fair value of options granted both at the share market price on the grant date and in excess of the share market price on the grant date was determined using the weighted average assumptions indicated below. No options were granted in 2005.

| | 2004 | 2003 | |
|---|---|---|---|
| | Granted at Market | Granted at Market | Granted in Excess of Market |
| Risk-free interest rate (%) | 4.07 | 4.48 | 5.04 |
| Expected hold period to exercise (years) | 6.0 | 6.2 | 9.1 |
| Volatility in the price of the Company's shares (%) | 26.1 | 27.4 | 28.5 |
| Weighted average fair value per option ($) | 8.46 | 7.40 | 6.04 |

## 13. Cumulative Translation Account

The foreign currency cumulative translation account represents the unrealized gain or loss on the Company's net investment in self-sustaining US-based operations. The change in the cumulative translation account during the year relates to the fluctuation in the value of the Canadian dollar relative to the US dollar. Balance sheet accounts denominated in US dollars have been translated to Canadian dollars at the rate of 1.1630 (2004 – 1.2020; 2003 – 1.2965).

| | 2005 $000s | 2004 $000s | 2003 $000s |
|---|---|---|---|
| Cumulative translation account, beginning of the year | **(19,018)** | (13,861) | 1,966 |
| Current year deferred translation adjustment | **(6,557)** | (5,157) | (15,827) |
| **Cumulative translation account, end of the year** | **(25,575)** | (19,018) | (13,861) |

## 14. Income Taxes

The effective income tax rate in the consolidated statements of income differs from statutory Canadian tax rates as a result of the following:

| | 2005 % | 2004 % | 2003 % |
|---|---|---|---|
| Income tax expense at statutory Canadian rates | **34.8** | 34.7 | 36.8 |
| Increase (decrease) resulting from: | | | |
| Income from associated companies | **(0.1)** | (0.3) | (0.6) |
| Rate differential on foreign income | **0.7** | (2.0) | 0.6 |
| Non-deductible expenses: | | | |
| Meals and entertainment | **1.1** | 1.4 | 1.4 |
| Stock compensation | **0.5** | 0.6 | 0.6 |
| Non-taxable foreign income net of non-creditable withholding taxes | **(1.6)** | (1.3) | (1.6) |
| Other | **(0.4)** | (0.7) | (0.5) |
| | **35.0** | 32.4 | 36.7 |

Since the Company operates in several tax jurisdictions, its income is subject to various rates of taxation. The details of income before income taxes are as follows:

| | 2005 $000s | 2004 $000s | 2003 $000s |
|---|---|---|---|
| Domestic | **61,323** | 48,111 | 36,583 |
| Foreign | **1,177** | (3,451) | 3,045 |
| Total income before income taxes | **62,500** | 44,660 | 39,628 |

Details of the income tax expense (recovery) are as follows:

| | | 2005 $000s | 2004 $000s | 2003 $000s |
|---|---|---|---|---|
| Current: | Domestic | **21,172** | 17,724 | 9,474 |
| | Foreign | **563** | 341 | 576 |
| Total current expense | | **21,735** | 18,065 | 10,050 |
| Future: | Domestic | **5** | (566) | 3,532 |
| | Foreign | **138** | (3,029) | 976 |
| Total future expense | | **143** | (3,595) | 4,508 |
| Total: | Domestic | **21,177** | 17,158 | 13,006 |
| | Foreign | **701** | (2,688) | 1,552 |
| Total income tax expense | | **21,878** | 14,470 | 14,558 |

Significant components of the Company's future income tax assets and liabilities are as follows:

| | 2005 $000s | 2004 $000s |
|---|---|---|
| **Future income tax assets** | | |
| Differences in timing of deductibility of expenses | **13,470** | 9,434 |
| Loss carryforwards | **4,670** | 2,316 |
| Share issue and other financing costs | **519** | 237 |
| Tax cost of property and equipment in excess of carrying value | **357** | 684 |
| Deferred gain on sale of building | **1,513** | 1,518 |
| Other | **1,112** | 700 |
| | **21,641** | 14,889 |
| Less current portion | **14,827** | 8,532 |
| | **6,814** | 6,357 |

| | 2005 $000s | 2004 $000s |
|---|---|---|
| **Future income tax liabilities** | | |
| Cash to accrual adjustments on acquisitions of US subsidiaries | **–** | 2,091 |
| Differences in timing of taxability of revenues | **15,287** | 7,702 |
| Carrying value of property and equipment in excess of tax cost | **7,304** | 5,025 |
| Carrying value of intangible assets in excess of tax cost | **10,625** | 2,016 |
| Other | **598** | 2,135 |
| | **33,814** | 18,969 |
| Less current portion | **17,552** | 10,653 |
| | **16,262** | 8,316 |

At December 31, 2005, loss carryforwards of approximately $3,374,000 are available to reduce the taxable income of certain Canadian subsidiaries. These losses expire as set out below:

| | $000s |
|---|---|
| 2007 | 194 |
| 2008 | 1,454 |
| 2009 | 66 |
| 2010 | 978 |
| 2014 | 664 |
| 2015 | 18 |
| | 3,374 |

In addition, the Company has loss carryforwards of approximately $10,625,000 available to reduce the taxable income of certain US subsidiaries that expire at varying times over the next 20 years.

The potential income tax benefits that will result from the application of Canadian and US tax losses have been recognized in these financial statements.

## 15. Earnings Per Share

The number of basic and diluted common shares outstanding, as calculated on a weighted average basis, is as follows:

| | 2005 # | 2004 # | 2003 # |
|---|---|---|---|
| **Basic shares outstanding** | **19,920,117** | 18,499,598 | 18,329,960 |
| Share options (dilutive effect of 938,264 options; 2004 – 1,041,333; 2003 – 1,419,100) | **533,792** | 507,691 | 788,056 |
| Restricted shares (dilutive effect of 58,696 restricted shares) | **17,207** | – | – |
| **Diluted shares outstanding** | **20,471,116** | 19,007,289 | 19,118,016 |

## 16. Cash Flows From (Used In) Operating Activities

Cash flows from operating activities determined by the indirect method are as follows:

| | 2005 $000s | 2004 $000s | 2003 $000s |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Net income for the year | **40,622** | 30,190 | 25,070 |
| Add (deduct) items not affecting cash: | | | |
| Depreciation of property and equipment | **12,389** | 11,986 | 9,912 |
| Amortization of intangible assets | **2,542** | 927 | 925 |
| Future income tax | **143** | (3,595) | 4,508 |
| Loss (gain) on dispositions of investments and property and equipment | **562** | (504) | 57 |
| Stock-based compensation expense | **1,814** | 894 | 706 |
| Provision for self-insured liability | **9,764** | 2,826 | – |
| Other non-cash items | **(1,332)** | (1,065) | – |
| Share of income from equity investments | **(187)** | (385) | (580) |
| Dividends from equity investments | **550** | 300 | – |
| | **66,867** | 41,574 | 40,598 |
| Change in non-cash working capital accounts: | | | |
| Accounts receivable | **15,748** | (1,542) | (1,252) |
| Costs and estimated earnings in excess of billings | **(19,572)** | 30,218 | (35,239) |
| Prepaid expenses | **487** | 496 | 113 |
| Accounts payable and accrued liabilities | **(2,697)** | (6,350) | 13,944 |
| Billings in excess of costs and estimated earnings | **1,664** | 1,600 | 4,951 |
| Income taxes payable/recoverable | **(5,183)** | 11,355 | (6,222) |
| | **(9,553)** | 35,777 | (23,705) |
| **Cash flows from operating activities** | **57,314** | 77,351 | 16,893 |

## 17. Joint Ventures

The Company participates in joint ventures with other parties as follows:

| | Percentage Owned | | |
|---|---|---|---|
| | 2005 % | 2004 % | 2003 % |
| yyC.T. Joint Venture | **20** | 20 | 20 |
| Stantec – S&L Partnership | **50** | 50 | 50 |
| Colt Stantec Joint Venture | **n/a** | 50 | 50 |
| Edmonton International Airports Joint Venture | **33** | 33 | 33 |
| Pine Creek Consultants Joint Venture | **33** | 33 | 33 |
| Dunlop Joint Ventures | **33–80** | 33–80 | n/a |
| Stantec Architecture Ltd./J.L. Richards & Associates Joint Venture | **50** | n/a | n/a |

As part of the acquisition of Dunlop Architects Inc. (Dunlop), the Company acquired the interests of 13 joint ventures entered into by Dunlop. The interest held in these joint ventures ranges from 33 to 80%, and each is project specific.

A summary of the assets, liabilities, revenues, expenses, and cash flows included in the consolidated financial statements related to joint ventures is as follows:

| | 2005 $000s | 2004 $000s | 2003 $000s |
|---|---|---|---|
| **Statement of income** | | | |
| Gross revenue | **5,941** | 1,186 | 11,949 |
| Subconsultant and other direct expenses | **5,072** | 894 | 9,611 |
| Administrative and marketing expenses | **147** | 217 | 776 |
| Net income for the year | **722** | 75 | 1,562 |
| **Balance sheets** | | | |
| Current assets | **3,743** | 3,445 | 1,547 |
| Current liabilities | **2,842** | 2,822 | 1,583 |
| **Statement of cash flows** | | | |
| Cash flows used in operating activities | **(488)** | (274) | (86) |

## 18. Segmented Information

The Company provides comprehensive professional services in the area of infrastructure and facilities throughout North America and internationally. The Company considers the basis on which it is organized, including geographic areas and service offerings, in identifying its reportable segments. Operating segments of the Company are defined as components of the Company for which separate financial information is available that is evaluated regularly by the chief operating decision maker in allocating resources and assessing performance. The chief operating decision maker is the Chief Executive Officer (CEO) of the Company, and the Company's operating segments are based on its regional geographic areas.

During 2003, the Company had seven operating segments, of which five were aggregated into the Consulting Services reportable segment. The two remaining operating segments (Design Build and Technology), which were below the quantitative thresholds in the recommendations of the CICA, were disclosed in the Other reportable segment. In addition to the above-noted operating segments, corporate

administration groups reported to the CEO and were included in the Other reportable segment. In the second quarter of 2004, an additional operating segment was added upon the acquisition of The Sear-Brown Group, Inc. This new segment has been aggregated into the Consulting Services reportable segment.

The Design Build operating segment consisted of the operations of the Company's 50% share of Lockerbie Stanley Inc. that, at December 31, 2003, was reflected as assets held for sale pending the finalization of an agreement to sell the Company's interest. The sale was completed in 2004. In addition, during 2004, the Company sold the operations related to its Technology segment. Operations sold during the year have not been presented as discontinued operations, because the amounts are not material.

Effective 2004, because the operations that comprised the Company's Design Build and Technology segments were sold and because the Company's corporate administration groups are not material, all operations of the Company are included in one reportable segment as Consulting Services.

**Geographic information**

| | Property and Equipment, Goodwill, Intangible Assets | |
|---|---|---|
| | 2005 $000s | 2004 $000s |
| Canada | **104,463** | 86,731 |
| United States | **223,593** | 52,032 |
| International | **441** | 471 |
| | **328,497** | 139,234 |

**Geographic information**

| | Gross Revenue | | |
|---|---|---|---|
| | 2005 $000s | 2004 $000s | 2003 $000s |
| Canada | **380,471** | 325,844 | 290,413 |
| United States | **233,428** | 190,362 | 161,655 |
| International | **4,121** | 4,673 | 7,874 |
| | **618,020** | 520,879 | 459,942 |

Gross revenue is attributed to countries based on the location of work performed.

**Practice area information**

| | Gross Revenue | | |
|---|---|---|---|
| | 2005 $000s | 2004 $000s | 2003 $000s |
| Consulting Services | | | |
| Environment | **104,437** | 105,471 | 91,758 |
| Buildings | **159,233** | 107,465 | 89,943 |
| Transportation | **92,146** | 92,631 | 80,519 |
| Urban Land | **208,903** | 168,876 | 159,941 |
| Industrial | **53,301** | 45,371 | 33,304 |
| | **618,020** | 519,814 | 455,465 |
| Other | **–** | 1,065 | 4,477 |
| | **618,020** | 520,879 | 459,942 |

**Customers**
The Company has a large number of clients in various industries and sectors of the economy. Gross revenue is not concentrated in any particular client.

## 19. Forward Contracts

The Company had no forward contracts outstanding at December 31, 2005. As at December 31, 2004, the Company had entered into foreign currency forward contracts that provided for the sale of US$10.0 million at rates ranging from 1.2050 to 1.2386 per US dollar. The fair values of these contracts, estimated using market rates at December 31, 2004, were $229,000. During 2004, net unrealized gains of $229,000 relating to derivative financial instruments were recorded in foreign exchange (gains) losses.

## 20. United States Generally Accepted Accounting Principles

The consolidated financial statements of the Company are prepared in Canadian dollars in accordance with accounting principles generally accepted in Canada (Canadian GAAP) that, in most respects, conform to accounting principles generally accepted in the United States (US GAAP). The following adjustments and disclosures would be required in order to present these consolidated financial statements in accordance with US GAAP. Investments in joint ventures are accounted for using the equity method under US GAAP, whereas Canadian GAAP requires the proportionate consolidation method. As permitted by the Securities and Exchange Commission, no disclosure of the effect of this difference is required.

**a) Net income and comprehensive income**
There are no identifiable material items that would result in a change in net income presented under Canadian and US GAAP.

The Company accounts for leases in accordance with Statement of Financial Accounting Standards No. 13, "Accounting for leases" (SFAS 13). SFAS 13 requires leasehold improvements in an operating lease to be amortized over the shorter of their economic lives or the lease term, as defined in SFAS 13. As a result, SFAS 13 requires the amortization period for leasehold improvements to be shorter than that applied by the Company under Canadian GAAP. The incremental amortization has been determined to be immaterial to the years presented.

Under US GAAP, the Company's investments held for self-insured liabilities would be classified as investments available for sale and recorded at fair value (note 6). The difference between the recorded and fair value of these investments has been determined to be immaterial to the years presented.

Comprehensive income is measured in accordance with Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" (SFAS 130). This standard defines comprehensive income as all changes in equity other than those resulting from investments by owners and distributions to owners and includes adjustments arising on the translation of self-sustaining foreign operations. Canadian GAAP does not yet require similar disclosure.

**Statement of Comprehensive Income**

| | 2005 $000s | 2004 $000s | 2003 $000s |
|---|---|---|---|
| Net income under Canadian and US GAAP | **40,622** | 30,190 | 25,070 |
| Other comprehensive income, net of tax: | | | |
| Unrealized foreign exchange loss on translation of self-sustaining foreign operations | **(6,557)** | (5,157) | (15,827) |
| **Comprehensive Income** | **34,065** | 25,033 | 9,243 |
| Accumulated other comprehensive income, beginning of year | **(19,018)** | (13,861) | 1,966 |
| Unrealized foreign exchange loss on translation of self-sustaining foreign operations | **(6,557)** | (5,157) | (15,827) |
| **Accumulated other comprehensive income, end of the year** | **(25,575)** | (19,018) | (13,861) |

**b) Other disclosure requirements**

**i) Allowance for doubtful accounts**

| | 2005 $000s | 2004 $000s | 2003 $000s |
|---|---|---|---|
| Balance, beginning of the year | **21,095** | 16,952 | 17,316 |
| Acquired balances | **7,298** | 5,294 | 651 |
| Provision for doubtful accounts | **73** | 6,632 | 4,544 |
| Deductions | **(12,164)** | (7,152) | (4,221) |
| Impact on foreign exchange | **(249)** | (631) | (1,338) |
| **Balance, end of the year** | **16,053** | 21,095 | 16,952 |

**ii) Long-term contracts**

Included in accounts receivable are holdbacks on long-term contracts of $1,431,000 in 2005 and of $3,653,000 in 2004.

## 21. Comparative Figures

Certain comparative figures have been reclassified to conform to the presentation adopted for the current year.



From left: Robert Mesel, Susan Hartman, Jack Finn, Tony Franceschini, Ron Triffo, Aram Keith, Bill Grace, Robert Bradshaw

## Board of Directors

**Aram Keith**
Irvine, California
Vice Chairman of the Board,
Stantec Inc.

**Robert J. Bradshaw** [2]
Toronto, Ontario
Chairman,
Contor Industries Limited

**E. John (Jack) Finn** [1]
Madison, Connecticut
Corporate Director

**Robert R. Mesel** [1]
Kiawah Island, South Carolina
Corporate Director

**Anthony P. Franceschini**
Edmonton, Alberta
President & CEO,
Stantec Inc.

**William D. Grace** [1,2]
Edmonton, Alberta
Corporate Director

**Susan E. Hartman** [2]
Rochester, New York
President and Owner,
The Hartman Group

**Ronald P. Triffo**
Edmonton, Alberta
Chairman of the Board,
Stantec Inc.

[1] Audit Committee
[2] Corporate Governance
and Compensation Committee

## Officers

**Ronald P. Triffo**
Chairman

**Anthony P. Franceschini**
President & CEO

**Donald W. Wilson**
Vice President & CFO

**Jeffrey S. Lloyd**
Vice President & Secretary

## Shareholder Information

### Transfer Agent

Computershare Trust
Company of Canada
Calgary, Alberta

### Auditors

Ernst & Young LLP
Chartered Accountants
Edmonton, Alberta

### Principal Bank

Canadian Imperial Bank of
Commerce

### Securities Exchange Listing

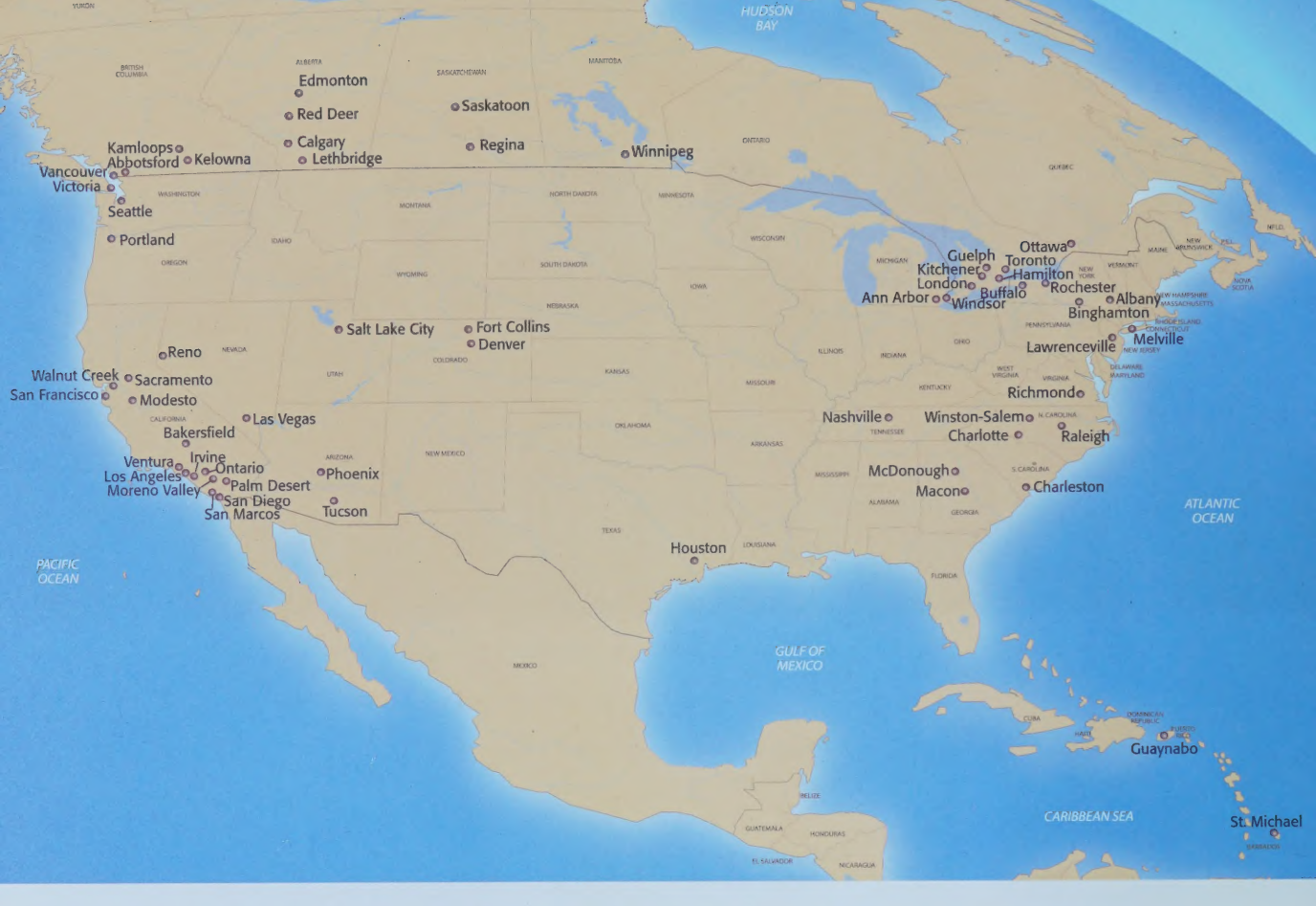
Stantec shares are traded on the
TSX under the symbol STN and on the
NYSE under the symbol SXC.

### Investor Relations

Stantec Inc.
10160 - 112 Street
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Canada T5K 2L6
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Fax: (780) 917-7330
ir@stantec.com

### Annual Meeting

May 4, 2006
11:00 AM
Stantec Centre
10160 - 112 Street
Edmonton, Alberta
Canada




## Local Offices by Region

### Canada

Calgary, Alberta
Edmonton, Alberta
Lethbridge, Alberta
Red Deer, Alberta
Abbotsford, British Columbia
Kamloops, British Columbia
Kelowna, British Columbia
Surrey, British Columbia
Vancouver, British Columbia
Victoria, British Columbia
Winnipeg, Manitoba
Guelph, Ontario
Hamilton, Ontario
Kitchener, Ontario
London, Ontario
Markham, Ontario
Mississauga, Ontario
Ottawa, Ontario
Toronto, Ontario
Windsor, Ontario
Regina, Saskatchewan
Saskatoon, Saskatchewan

### US West

Phoenix, Arizona
Tucson, Arizona
Bakersfield, California
Irvine, California
Los Angeles, California
San Francisco, California
Modesto, California
Moreno Valley, California
Ontario, California
Palm Desert, California
Sacramento, California
San Diego, California
San Marcos, California
Scottsdale, California
Ventura, California
Walnut Creek, California
Denver, Colorado
Fort Collins, Colorado
Las Vegas, Nevada
Reno, Nevada
Portland, Oregon
Houston, Texas
Salt Lake City, Utah
Seattle, Washington

### US East

Charleston, South Carolina
Macon, Georgia
McDonough, Georgia
Lawrenceville, New Jersey
Albany, New York
Binghamton, New York
Buffalo, New York
Melville, New York
Rochester, New York
Charlotte, North Carolina
Raleigh, North Carolina
Ann Arbor, Michigan
Winston-Salem, North Carolina
Nashville, Tennessee
Richmond, Virginia

### Caribbean

St. Michael, Barbados
Guaynabo, Puerto Rico

The cover and corporate section of this annual report were printed on 100% postconsumer recycled paper certified by the *Forest Stewardship Council (FSC), and the financial section was printed on 30% postconsumer recycled paper. The FSC paper was manufactured entirely using wind-generated electricity, and the report was printed using environmentally friendly vegetable-based inks.

*The FSC program recognizes paper products that are made with high percentages of postconsumer reclaimed materials.

The production of this report used 7.94 tons of recycled paper, and the savings and benefits derived from employing postconsumer recycled fiber instead of virgin fiber are as follows:

**117 trees**
not cut down

**287.78 pounds**
of waterborne waste not created

**53,115.19 gallons**
of water/wastewater flow saved

**5,634 pounds**
of solid waste not generated

**10,995 pounds**
of atmospheric emissions eliminated

**75,476,175.89 British thermal units**
of energy not consumed

Savings derived from using paper produced from wind power and biogas (a renewable energy composed primarily of methane resulting from the natural decomposition of organic waste) amounted to

**1,527.03 pounds**
of air emissions (carbon dioxide, sulfur dioxide, and nitrogen oxide) not generated

The wind power and biogas used was the equivalent of

**7,386.44 cubic feet**
of natural gas saved

Source: Mohawk Paper Mills Inc., March 2006.

Stantec

stantec.com